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Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the State conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards. Following is a summary of the significant policies:

Reporting Entity

Michigan was admitted to the Union as the twenty-sixth state in 1837. The State of Michigan is governed under the Constitution of 1963, as amended. The legislative power is vested in a 38-member senate and a 110-member house of representatives; executive power is vested in a governor; and the judicial power is vested exclusively in one court of justice.

For financial reporting purposes, the State of Michigan's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, departments and agencies, bureaus, boards, commissions, and those authorities that are considered an integral part of the primary government. Component units are legally separate governmental organizations for which the State's elected officials are financially accountable. Component units can also be legally separate, tax-exempt entities that raise and hold economic resources for the direct benefit of a governmental unit.

Financial accountability is defined in GASB Statement No. 14, The Financial Reporting Entity. The State is financially accountable for those entities in which the State appoints a voting majority of an organization's governing authority, and either is able to impose its will upon the entity or there exists a financial benefit or burden relationship with the State. For those entities in which the State does not appoint a voting majority of the governing authority, GASB Statement No. 14 requires inclusion in the reporting entity if they are fiscally dependent on the State or if it would be misleading to exclude the authority.

GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, most of the university component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

Blended Component Units

The State Building Authority and the Michigan Tobacco Settlement Finance Authority are legally separate organizations that have boards appointed by the primary government and provide services primarily to benefit the State. Therefore, they are reported as though they were part of the primary government, using the blending method.

Discretely Presented Component Units

These types of component units are reported in separate columns or rows in the government-wide financial statements to emphasize that they are legally separate from the government.

The State is able to impose its will upon these discretely presented component units:

The Farm Produce Insurance Authority provides reimbursements to participating producers for losses suffered in the event of a grain dealer's financial failure.

The Land Bank Fast Track Authority receives tax reverted properties, undertakes expedited action to clear their titles, and then ensures the properties' redevelopment.

The Michigan Early Childhood Investment Corporation participates with intermediate school districts to establish standards and guidelines for early childhood development activities.

The Michigan Education Trust offers contracts, which, for actuarially determined amounts, provide plan participants with future tuition at institutions of higher education.

The Michigan State Housing Development Authority finances loans for the construction of single and multi-family housing and home improvement projects.

The Michigan Municipal Bond Authority assists local units by pooling their borrowing activities. This authority is also responsible for assisting local units with their financing of water pollution control projects.

The Mackinac Bridge Authority accounts for the operation of the Mackinac Bridge.

The Michigan Broadband Development Authority is a financing authority that assists in the build-out of broadband infrastructure to accelerate the deployment of high-speed Internet connections Statewide.

The Michigan Exposition and Fairgrounds Authority conducts an annual state fair and other exhibits and events for the purpose of promoting all phases of the economy of this State. The fair, exhibits, and events encourage and demonstrate agricultural, industrial, commercial, educational, entertainment, tourism, technological, cultural, and recreational pursuits.

The Michigan Higher Education Assistance Authority is the State guaranty agency under the Stafford Loan Program, the Supplemental Loans to Students Program, and the Parent Loan for Undergraduate Students Program. This Authority also administers scholarships and grants that are financed with General Fund appropriations.

The Michigan Higher Education Facilities Authority accounts for the administration of no-commitment debt issued for the benefit of private institutions of higher education.

The Michigan Higher Education Student Loan Authority is a financing authority that makes loans to students or their parents.

The Michigan Public Educational Facilities Authority partners with other states to facilitate the acquisition of capital for the construction, rehabilitation, refurbishing, or equipping of qualified public educational facilities.

The Michigan State Hospital Finance Authority accounts for the administration of limited obligation debt issued for the benefit of hospitals.

The Michigan Strategic Fund provides business enterprises with additional sources of financing.

There is a financial burden/benefit relationship between these entities and the State:

The Mackinac Island State Park Commission operates the Mackinac Island and Michilimackinac State Parks.

The Michigan Economic Development Corporation manages programs to stimulate, coordinate, and advance economic development in the State.

The following entity's relationship with the State would be misleading if it were omitted from the State's reporting entity:

The State Bar of Michigan is a public body corporate whose membership consists of persons licensed to practice law.

Ten of the State's public universities are considered component units because they have boards appointed by the primary government. Their balances and operating results are included with the other discretely presented component units on the government-wide financial statements. The ten universities included in these statements are: Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University. Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate. The State provides significant funding to support these institutions; however, under GASB Statement No. 14 criteria, they are considered fiscally independent, special-purpose governments.

Included in the balances and operating results for most of the university component units is financial activity for fund-raising foundations that contribute to these universities. Although the universities do not control the timing or amount of receipts from their foundations, the majority of resources or income thereon that the foundations hold and invest are restricted to the activities of the respective universities by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific universities, the foundations are considered component units of the universities and are included in the universities' financial statements.

Significant Transactions
The State's significant transactions with its major discretely presented component units result primarily from providing appropriations to the public universities, including $92.1 million to Central Michigan University and $130.6 million to Western Michigan University.

Availability of Financial Statements
The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the various component units. To obtain their phone numbers, you may contact the Office of the State Budget, Office of Financial Management, Financial Reporting Section at (517) 373-3029.

Related Organizations
The State's Insurance Commissioner is responsible for appointing the members of the boards of the Michigan Catastrophic Claims Association and the Michigan Property and Casualty Guaranty Association, but the State's accountability for these organizations does not extend beyond making the appointments.

The State's Governor is responsible for appointing the members of the board of the Venture Michigan Fund, a private non-profit corporation. The State's accountability for this organization does not extend beyond the Governor's appointments.

Joint Ventures
As discussed in more detail in Note 7, the State participates in two joint ventures. Their financial activities are not included in the State's fund financial statements, but the State's equity interest is recorded as an asset in the Statement of Net Assets.

Jointly Governed Organizations
The State, the University of Michigan, Michigan State University, and Wayne State University appoint members of the board of the Michigan Public Health Institute (MPHI), a non-profit corporation. MPHI was established to plan, promote, and coordinate health services research with a public university or a consortium of public universities in the State. The State does not appoint a majority of the board, has no rights to the assets, and is not responsible for debts of MPHI. Therefore, the State's accountability for MPHI does not extend beyond making the appointments. During fiscal year 2008, the State awarded contracts totaling $32.7 million to MPHI.

The City of Detroit, Charter County of Wayne, and the Department of Community Health of the State of Michigan appoint members of the board of the Detroit Wayne County Health Authority (DWCHA), a public agency. The DWCHA was established to plan, promote, and coordinate health services for at-risk population in the City of Detroit and Wayne County. The State does not appoint a majority of the board, has no right to the assets, and is not responsible for debts of DWCHA; therefore, the State's accountability for DWCHA does not extend beyond making the appointments. During fiscal year 2008, the State awarded contracts totaling $3.8 million to DWCHA.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements
The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

Fund Financial Statements
Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement Focus and Basis of Accounting
The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become *susceptible to accrual*; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days. Significant revenues susceptible to accrual include tax revenues and federal grants. Revenues that the State earns by incurring obligations are recognized in the period when all applicable eligibility requirements have been met.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

Financial Statement Presentation
The State reports the following major governmental funds:

The General Fund is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The Counter-Cyclical Budget and Economic Stabilization Fund, commonly referred to as the "Budget Stabilization Fund" or "Rainy Day Fund," was created to assist in stabilizing revenue during periods of economic recession.

The School Aid Fund's purpose is to aid in the support of the public schools and the intermediate school districts.

The State reports the following major enterprise funds:

The State Lottery Fund accounts for the operations of the State's lottery, bingo, and charitable game operations.

The Michigan Unemployment Compensation Funds receive contributions from employers and provide benefits to eligible unemployed workers.

Additionally, the State reports the following fund types:

Governmental Fund Types:
Special Revenue Funds - include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. Examples include conservation, transportation, regulatory, and other activities.

Debt Service Funds - account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds - account for the acquisition or construction of major State capital facilities financed by bond proceeds and commercial paper notes.

Permanent Funds - report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry, such as veterans, state park preservation, and others.

Proprietary Fund Types:
Enterprise Funds - report the activities for which fees are charged to external users for goods or services, such as the State's liquor sales. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees.

Internal Service Funds - provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include prisoner-built office furnishings; motor pool services; printing, reproduction and mailing services; information technology; risk management; and health-related fringe benefits. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Types:

Pension (and other employee benefit) Trust Funds - report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution plans, and other postemployment benefit plans.

Private Purpose Trust Funds - report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include the State's Escheats Fund, gifts to the State, worker disability monies, and others.

Agency Funds - report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

Fiscal Year-Ends

All funds and discretely presented component units are reported using fiscal years which end on September 30, except for the Michigan State Housing Development Authority and the ten State universities, which utilize June 30 year-ends and the Farm Produce Insurance Authority which has a December 31 year-end.

Assets, Liabilities, and Net Assets/Fund Balance

Cash and Cash Equivalents

On the Statement of Cash Flows, the amount reported as "Cash and cash equivalents" is equal to the total of the amounts reported on the Statement of Net Assets as "Cash" and "Equity in Common Cash," less the amount of "Warrants outstanding."

Cash

Cash reported on the Statement of Net Assets and the Balance Sheet consists of petty cash, undeposited receipts, deposits in transit to the Common Cash pool, and cash equivalents such as short-term investments with original maturities of less than three months that are used for cash management, rather than investing activities.

Equity in Common Cash

The State Treasurer maintains centralized management of most State cash resources (not including component units). From the perspective of the various State funds, the pool functions as both a cash management pool and a demand deposit account. The operations and investments of the Common Cash pool are described in Note 5.

Taxes Receivable

Taxes receivable represent amounts due to the State at September 30, which will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered "available" (i.e., received by the State within approximately 60 days after year-end) is recorded as revenue; the remainder is recorded as deferred revenue. Application of the measurability and availability criteria regarding taxes is described in Note 6.

Amounts Due From Federal Agencies

For most federally funded programs, revenue is accrued in the same period as related obligations are recorded. In certain programs financed entirely by the federal government, expenditures and related revenues are recognized only to the extent of billings received by fiscal year-end. This treatment, which is generally limited to certain programs within the Department of Education, understates both assets and liabilities, and expenditures and revenues; however, there is no impact on net assets or fund balance.

Inventories

Inventories are valued at cost, primarily using the first-in, first-out flow method. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).

Investments

Generally, investments are reported at fair value, consistent with the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury obligations are reported at amortized cost. Additional disclosures describing investments are provided in Note 8.

Security Lending Collateral
Securities on loan for cash collateral are reported in the Statement of Net Assets. Liabilities resulting from the security lending transactions are also reported. Additional disclosures describing security-lending transactions are provided in Note 8.

Other Assets
Other assets include receivables, amounts held in escrow, and other types of assets not reported on other lines.

Mortgages and Loans Receivable
Mortgages and loans receivable are reported net of unamortized premiums, discounts, deferred loan origination fees, and allowances for possible losses.

Capital Assets
Capital assets, which include land, buildings, equipment and infrastructure assets (i.e., roads, bridges, ramps, and similar items), are reported in the government-wide financial statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide financial statements. Capital assets are reported at historical cost or, if donated, at the estimated fair market value at the date of acquisition. In some instances, capital asset historical costs were not available; therefore, the costs of these assets at the dates of acquisitions have been estimated.

Interest incurred during construction is only capitalized in proprietary funds. Most capital assets are depreciated over their useful lives, using the straight-line depreciation method. However, the State's significant infrastructure assets utilize an alternative accounting treatment in which costs to maintain and preserve these assets are expensed and no depreciation expense is recorded. This approach is discussed further in the Required Supplementary Information portion of this report.

Additional disclosures related to capital assets and assets acquired through capital leases are provided in Notes 9 and 12, respectively.

Warrants Outstanding
Warrants outstanding represent drafts issued against the State Treasurer's Common Cash pool, which have not yet cleared. These are similar to outstanding checks; however, the issuing funds' balances in the pool are not reduced until warrants are redeemed.

Income Tax Refunds Payable
The amount of collected or accrued personal income tax revenues that will be refunded is estimated and accrued as a General Fund liability. Note 16 more fully describes this liability.

Prize Awards Payable
The State Lottery Fund makes long-term prize awards for certain games, most notably the lotto games. At September 30, 2008, long-term prize awards of $305.2 million were reported at a present value of $220.0 million, using discount rates ranging from 5.0 to 8.5%.

Non-installment prize awards and the portion of long-term awards payable during the next fiscal year, totaling $118.8 million, are included with "Accounts payable and other liabilities" on the Statement of Net Assets.

Deferred Revenue
In the government-wide financial statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Long-Term Liabilities
In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Long-term liabilities are more fully described in Notes 13, 14, and 15.

Compensated Absences
In the government-wide financial statements and proprietary fund financial statements, compensated absences are reported as liabilities as required by GASB.

Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 296 to 356 hours. The maximum accumulation that may be paid off is 40 hours less than the total hours that may be accumulated. Employees receive a 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is recorded at the maximum accumulation amounts in accordance with generally accepted accounting principles, as it is probable that the State will compensate employees through paid time off, for the hours earned in excess of the total that may be paid off. The liability for annual leave is valued at 100% of the balance plus the State's share of social security and retirement contributions.

Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50% of the employee's sick leave accumulation, times their last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave that increases from 0 to 50%, depending upon the balance of their sick leave hours. Sick leave is valued at 0 to 50% plus the State's share of social security contributions, based on the pay rates in effect as of September 30, 2008.

The State instituted a banked leave time program in fiscal year 2004 whereby eligible employees work a regular schedule but receive pay for a reduced number of hours. The banked leave time program was continued in fiscal years 2005 and 2006. The program was discontinued in fiscal year 2006. The unpaid hours worked accrue to a banked leave time account. Upon an employee's separation, death, or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State's 401k plans, and, if applicable, to the State's 457 plans. The banked leave liability is valued at the pay rates in effect as of September 30, the fiscal year-end.

In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end.

Net Assets/Fund Balance
The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund financial statements, and "Fund Balance" on governmental fund financial statements.

Reservations
Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either 1) funds legally segregated for a specific use, or 2) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. Note 22 provides a disaggregation of reserved fund balances.

Revenues and Expenditures/Expenses

Government-Wide Financial Statements
In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (i.e., general government, education, transportation, etc). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

Interest on Long-Term Debt
Interest charges on the State's general long-term liabilities do not qualify as a direct expense of a function and are reported on this line, unless the borrowing is essential to the creation or continuing existence of a program. During fiscal year 2008, interest charges on general long-term liabilities totaling $11.8 million were reported as functional expenses.

Fund Financial Statements
In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (i.e., federal grants), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Capital outlay," "Intergovernmental-revenue sharing," or "Debt service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Tax expenditures, which represent income tax credit programs that are in substance grants, are also reported as current expenditures. These are described in more detail in Note 16.

Capital outlay includes expenditures for capital assets. Intergovernmental-revenue sharing accounts for the distribution of certain tax revenues that are shared with local units based upon constitutional and statutory requirements. Debt service includes both interest and principal outlays related to bonds and payments on capitalized leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (i.e., salaries, depreciation, and purchases for resale). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Other Financing Sources
These additions to governmental fund balances in the fund financial statements include resources and financing provided by bond proceeds, capital leases, and transfers from other funds.

Reimbursements
Reimbursements result when a fund originally making a disbursement receives resources from another fund to which the expenditure/expense is more properly attributable. For example, the State uses this method when the administrative costs of proprietary funds, discretely presented component units, or pension (and other employee benefit) trust funds are appropriated in the General Fund.

Interfund Services Provided and Used
When a sale or purchase of program-related goods and/or services between funds occurs, for a price approximating their external exchange value, the seller reports revenue and the purchaser expenditure or expense, depending upon the fund type.

Transactions between the primary government and a discretely presented component unit are generally classified as revenues and expenses, unless they represent repayments of loans or similar activities.

Other Financing Uses
These reductions of governmental fund resources in fund financial statements normally result from transfers to other funds.

Interfund Activity and Balances

Interfund Activity
As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities (examples include the transfers of profits from the Liquor Purchase Revolving Fund to the General Fund and the State Lottery Fund to the School Aid Fund) and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column (examples include activities between the Department of Treasury [general government line] and the Department of Education [education line]). Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources. An example is gas taxes collected by the Department of Transportation but expended by the Department of Natural Resources.

Interfund Balances
Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

NOTE 2 – FUNDS AND COMPONENT UNITS BY CLASSIFICATION

The following table lists all of the funds and component units whose balances are reflected in this financial report.

Operating funds which are subject to annual appropriation and for which budget and actual schedules are included in this report are identified by an "*". For each fund or component unit listed, the page number of the first financial statement for that fund or component unit is shown in parenthesis.

PRIMARY GOVERNMENT:

MAJOR FUNDS

Governmental:
General Fund* (p. 22)
Counter-Cyclical Budget and Economic Stabilization Fund* (p. 22)
School Aid Fund* (p. 22)

Proprietary:
State Lottery Fund (p. 28)
Michigan Unemployment Compensation Funds (p. 28)

NON-MAJOR FUNDS

Governmental:

Special Revenue Funds:

Transportation Related:

State Aeronautics Fund* (p. 116)
State Trunkline Fund* (p. 116)
Michigan Transportation Fund* (p. 116)
Comprehensive Transportation Fund* (p. 116)
Combined State Trunkline Bond Proceeds Fund (p. 117)
Combined Comprehensive Transportation Bond Proceeds Fund (p. 117)
Transportation Related Trust Funds (p. 117)

Conservation, Environment, and Recreation Related:

Michigan Conservation and Recreation Legacy Fund*(p. 126)
Michigan Game and Fish Protection Trust Fund (p. 126)
Combined Recreation Bond Fund - Local Projects (p. 126)
Combined Environmental Protection Bond Fund (p. 127)
Michigan Nongame Fish and Wildlife Trust Fund* (p. 127)
Michigan Civilian Conservation Corps Endowment Fund* (p. 127)
Forest Development Fund* (p. 127)
Bottle Deposits Fund (p. 127)

Regulatory and Administrative Related:

Michigan Employment Security Act - Administration Fund* (p. 136)
Safety Education and Training Fund* (p. 136)
State Construction Code Fund* (p. 136)
Homeowner Construction Lien Recovery Fund* (p. 136)
State Casino Gaming Fund* (p. 137)
Second Injury Fund (p. 137)
Silicosis, Dust Disease, and Logging Industry Compensation Fund (p. 137)
Self-Insurers' Security Fund (p. 137)
Utility Consumer Representation Fund (p. 137)

Other State Funds:

School Bond Loan Fund (p. 146)
21st Century Jobs Trust Fund* (p. 146)
Michigan Tobacco Settlement Finance Authority* (p. 146)
Michigan Merit Award Trust Fund* (p. 146)
Children's Trust Fund* (p. 147)
Assigned Claims Facility and Plan Fund (p. 147)
Military Family Relief Fund* (p. 147)
Miscellaneous Special Revenue Funds (p. 147)

Debt Service Funds:

Combined State Trunkline Bond and Interest Redemption Fund (p. 154)
Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 154)
Recreation and Environmental Protection Bond Redemption Fund (p. 154)
School Loan Bond Redemption Fund (p. 155)
Michigan Tobacco Settlement Finance Authority (p. 155)
State Building Authority (p. 155)

Capital Projects Funds:

Combined Recreation Bond Fund – State Projects (p. 160)
Advance Financing Funds (p. 160)
State Building Authority (p. 160)

Permanent Funds:

Michigan Natural Resources Trust Fund* (p. 164)
Michigan State Parks Endowment Fund* (p. 164)
Michigan Veterans' Trust Fund* (p. 164)

Proprietary:

Enterprise Funds:

Liquor Purchase Revolving Fund (p. 170)
Attorney Discipline System (p. 170)

Internal Service Funds:

Correctional Industries Revolving Fund (p. 174)
Motor Transport Fund (p. 174)
Office Services Revolving Fund (p. 174)
Information Technology Fund (p. 175)
Risk Management Fund (p. 175)
State Sponsored Group Insurance Fund (p. 175)

Fiduciary:

Pension (and other employee benefit) Trust Funds:

State of Michigan Deferred Compensation Funds (p. 182)
Legislative Pension Benefits Fund (p. 182)
Legislative Other Postemployment Benefits Fund (p. 182)
State Police Pension Benefits Fund (p. 182)
State Police Other Postemployment Benefits Fund (p. 183)
State Employees' Pension Benefits Fund (p. 183)
State Employees' Other Postemployment Benefits Fund (p. 183)
Public School Employees' Pension Benefits Fund (p. 183)
Public School Employees' Other Postemployment Benefits Fund (p. 183)
Judges' Pension Benefits Fund (p. 183)
Judges' Other Postemployment Benefits Fund (p. 184)
State of Michigan Defined Contribution Retirement Fund (p. 184)

Private Purpose Trust Funds:

Escheats Fund (p. 190)
Gifts, Bequests, and Deposits Investment Fund (p. 190)
Hospital Patients' Trust Fund (p. 190)
Michigan Education Savings Program (p. 190)

Agency Funds:

Environmental Quality Deposits Fund (p. 193)
Insurance Carrier Deposits Fund (p. 193)
State Treasurer's Escrow and Paying Agent Fund (p. 193)
Child Support Collection Fund (p. 193)

DISCRETELY PRESENTED COMPONENT UNITS:

Authorities:

Major Funds:
Michigan Education Trust (p. 38)
Michigan State Housing Development Authority (p. 38)
Michigan Municipal Bond Authority (p. 38)

Non-Major Funds:
Farm Produce Insurance Authority (p. 198)
Land Bank Fast Track Authority (p. 198)
Mackinac Bridge Authority (p. 198)
Mackinac Island State Park Commission (p. 199)
Michigan Broadband Development Authority (p. 199)
Michigan Early Childhood Investment Corporation (p. 199)
Michigan Economic Development Corporation (p. 199)
Michigan Exposition and Fairgrounds Authority (p. 199)
Michigan Higher Education Assistance Authority (p. 200)
Michigan Higher Education Facilities Authority (p. 200)
Michigan Higher Education Student Loan Authority (p. 200)
Michigan Public Educational Facilities Authority (p. 201)
Michigan State Hospital Finance Authority (p. 201)
Michigan Strategic Fund (p. 201)
State Bar of Michigan (p. 201)

State Universities (1):

Major Funds:
Central Michigan University (p. 39)
Western Michigan University (p. 39)

Non-Major Funds:
Eastern Michigan University (p. 206)
Ferris State University (p. 206)
Grand Valley State University (p. 206)
Lake Superior State University (p. 206)
Michigan Technological University (p. 207)
Northern Michigan University (p. 207)
Oakland University (p. 207)
Saginaw Valley State University (p. 207)

(1) Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate from the State. The State provides significant funding to support these institutions; however, under GASB Statement No. 14, The Financial Reporting Entity criteria, they are considered fiscally independent special-purpose governments.

NOTE 3 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Major Constitutional and Statutory Provisions

Balanced Budget Requirements
Article 5 of the State Constitution mandates that the executive budget recommend spending limits for operating funds to the Legislature that are within available resources. Compliance with this is demonstrated in the executive budget and budget bills for each fiscal year.

Article 4 of the State Constitution mandates the Legislature to enact appropriations for each operating fund that do not exceed that fund's revenue estimates, including beginning unreserved fund balance.

Compliance with this requirement is demonstrated in schedules included in the annual appropriation acts, usually the "General Government" appropriation act. When it appears that revenue will fall below the estimates on which the appropriations are based, the Governor is required to recommend spending reductions as necessary to avoid a year-end deficit.

Local Spending Requirements
Article 9, Section 30, of the State Constitution requires that State spending to, or on behalf of, local units of government shall not fall below a specified percentage of total State spending. The percentage, recalculated effective with fiscal year 1993, is 48.97%.

Final calculations establishing the State's compliance with this constitutional provision for fiscal year 2008 are not yet complete. For fiscal year 2007, the most recent year for which final calculations are available, the proportion of total State spending paid to local units of government was determined to be 58.2%, reflecting payments that exceeded the minimum required by $2.5 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2008.

Revenue Limits
Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1979, in relation to calendar year 1977 personal income, is 9.49%. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1% or more, the amount in excess must be refunded to personal income tax payers and payers of the State's Michigan business tax. If the limit is exceeded by an amount

less than 1%, the excess may be deposited into the State's Budget Stabilization Fund. The calculations determining the State's compliance with this constitutional provision for fiscal year 2008 are not final. For fiscal year 2007, the most recent year for which final calculations are available, total State revenues subject to this limitation were beneath the constitutional limit by $5.3 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2008.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund" or "Rainy Day Fund") was created in 1977 to assist in stabilizing revenue during periods of economic recession. This fund currently operates under Sections 18.1351 - 18.1359 of the Michigan Compiled Laws, as amended. In general, the law requires payments into the fund when real economic growth exceeds 2% and allows withdrawals from the fund when real economic growth is less than 0%. Funds can also be withdrawn when the State's unemployment rate exceeds 8% or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature.

The following table summarizes the transactions for the fund for fiscal year 2008 (in millions):

Beginning unreserved fund balance	$ 2.1
Interest income	.1
Transfer to General Fund	-
Ending unreserved fund balance	$ 2.2

Budgetary Overexpenditures

In the event that expenditures exceed authorization during a year, the department must request a supplemental appropriation for the amount overspent, if that amount exceeds their lapses or if they expect to make payments from prior year authorization in the next fiscal year. There were the following line-item overexpenditures of State departments incurred during the year, which represent noncompliance with State budget laws (in millions):

General Fund	
State Police	$ 1.4
General Fund Total	$ 1.4

NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

Implementation of GASB Statement No. 45

During fiscal year 2008, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement establishes standards of accounting and financial reporting for other postemployment benefits (OPEB) expense/expenditures and related OPEB liabilities or assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. The effects of applying this standard are disclosed in Note 11. The State implemented the requirements for reporting the net OPEB obligation prospectively, which resulted in a zero net OPEB obligation at transition.

As a result of the implementation of GASB Statement No. 45, the retiree insurance benefits programs are now accounted for in the General Fund and several OPEB funds, rather than the State Sponsored Group Insurance Fund (SSGIF). Accordingly, beginning net assets were reduced in SSGIF by $54.4 million and increased in the State Police, State Employees', and Judges' OPEB funds by $4.0 million, $50.2 million, and $.1 million, respectively.

Western Michigan University, a discretely presented component unit, applied GASB Statement No. 45 retroactively. Accordingly, beginning net assets were reduced by $113.3 million.

Implementation of GASB Statement No. 48

During fiscal year 2008, the State implemented GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, which resulted in the State recognizing amounts due to component units for receivables that were previously assigned to the Michigan Municipal Bond Authority. In fiscal year 2007, the State removed the receivables from local units from the State's financial statements. However, these loans are considered collateralized borrowings of the State rather than a sale. As a result, the State recorded receivables from local units (school districts) with corresponding amounts due to component units, totaling $511.5 million, for balances as of September 30, 2007.

Eastern Michigan University and Ferris State University

Eastern Michigan University and Ferris State University, discretely presented component units, reduced beginning net assets by $10.8 million and $14.0 million, respectively, to reflect a change in classification of balances associated with Federal Perkins loans.

Michigan Economic Development Corporation
Michigan Economic Development Corporation, a discretely presented component unit, increased its beginning net assets by $26.9 million to reflect prior period adjustments related to a court settlement.

Michigan Early Childhood Investment Corporation
Beginning net assets were increased by $1.6 million for prior period errors.

NOTE 5 – TREASURER'S COMMON CASH

General Accounting Policies

The State Treasurer manages the State's Common Cash pool, which is used by most state funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund's balance is treated as equity in the pool, and presented in this report as "Equity in common cash." Many funds, including pension (and other employee benefit) trust funds, use their equity in the pool as a short-term investment vehicle.

All negative balances in the pool are reclassified at year-end as interfund liabilities. If the negative balance is considered long-term, the reclassification is recorded as an advance.

Statute or administrative policy determines whether a particular fund receives or pays interest on its balances in the pool. If a fund does not receive or pay interest, the General Fund receives or absorbs such amounts. The State Treasurer has placed a "cap," or limit, on the amount of interest that can be earned by some State funds. These "capped" funds are limited to a maximum rate determined by the State Treasurer. For the remaining "uncapped" funds, earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter. Accrued earnings of the pool are recorded as assets, with the accrual allocated to the various funds' equity in the pool.

Interest revenues on positive balances and interest charges on negative balances are reflected as revenues or expenditures/expenses of each of the participating funds.

Investments and Deposits

The investment authority for the Common Cash pool is found in Sections 21.141 - 21.147 of the Michigan Compiled Laws (MCL). The State Treasurer may invest surplus funds belonging to the State in bonds, notes, and other evidences of indebtedness of the United States Government and its agencies and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State.

The Treasurer invests excess cash in short-term investments or cash equivalents. The law does not prohibit the Treasurer from entering into repurchase agreements; however, the Treasurer did not use these agreements in managing the pool in fiscal year 2008.

Statutes provide for certain special state investment programs for which the General Fund is credited (charged) for earnings in excess of (under) those achieved by regular pool investments. To date, these programs have not resulted in any principal losses.

Emergency Financial Assistance Loan Program: This program provides for emergency loans to local units of government, and is the most significant of the special investment programs. The Emergency Financial Assistance Loan Board, established by MCL Section 141.932, administers the program. The Treasurer may not loan more than a combined total of $5.0 million in any one fiscal year to qualifying cities, villages, or townships in amounts as approved by the Board.

In fiscal year 2000, the Emergency Financial Assistance Loan Board was authorized to approve the lending of up to $159.9 million to Wayne County to finance the payment of certain obligations to the State. The outstanding balance at September 30, 2008 was $52.9 million. The interest rate is reset July 1 of each year in accordance with the loan agreement. Loan repayments by the County are supported by provisions of the loan agreement and legislation that pledge the County's share of a portion of the State taxes collected on cigarette sales. There were no principal repayments on the loans in fiscal year 2008.

Michigan Sugar Beet Loan Program: MCL Section 21.142e provides for a program in which the State may make no-interest loans from the Common Cash pool to sugar beet growers' cooperatives for the purpose of buying the assets of agricultural processors who are in or have recently been in bankruptcy proceedings.

The loans may not exceed $5.0 million in total. MCL Section 21.142e was amended, effective March 22, 2007, to extend the loan periods to a maximum of 10 years. As of September 30, 2008, loans outstanding totaled $1.8 million and will mature on October 11, 2011.

The State Treasurer, as part of a modification to the loan, is required to subordinate a loan of not more than $5.0 million to the primary loan of a sugar beet growers' cooperative (Michigan Sugar Beet Growers, Inc.) and relinquish any enforcement powers or authority that may exist under the current contract or agreement. However, the amendment to MCL Section 21.142e also provides that if a quarterly payment is missed by the borrower after February 15, 2007, the entire loan is in default and is due and payable immediately, in full.

Assets and equities of the Common Cash pool as of September 30 were as follows (in millions):

Assets	
Cash on hand	$ -
Demand deposits	801.9
Time deposits - regular	135.0
Prime commercial paper - at cost	1,641.4
Interest receivable	1.9
Emergency loans to local units - at cost	57.9
Michigan Sugar Beet Loan Program	1.8
Total assets	$ 2,639.9
Equities	
Fund equities (net) in common cash (1):	
Governmental activities	$ 1,526.5
Business-type activities	61.5
Fiduciary funds	933.1
Discretely presented component units	119.0
Net fund equities	$ 2,639.9

(1) Negative equity balances in the pool are reclassified at year-end as interfund receivables and liabilities. Current balances are included with "Amounts due from other funds" and "Amounts due to other funds" and long-term amounts are classified as interfund advances. Note 18 summarizes interfund receivables and liabilities.

The following paragraphs provide disclosures about deposits and investments of the Common Cash pool, as required by GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements as amended by GASB Statement No. 40, Deposit and Investment Risk Disclosures. Please see Note 8 for information about deposits and investments that are not part of the Common Cash pool.

Common Cash Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

Uncollateralized

Collateralized with securities held by the pledging financial institution, or

Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The State Treasurer's policy requires the following criteria to lessen custodial credit risk: all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the State's funds. A bank, savings and loan association, or credit union holding State funds must be organized under the laws of Michigan or federal law and maintain a principal office or branch office in the State of Michigan. No deposit in any financial organization may be in excess of 50 percent of the net worth of the organization.

At September 30, 2008, the carrying amount of deposits, including time and demand deposits, was $937.0 million. The deposits were reflected in the accounts of the banks at $937.0 million. Of the bank balance, $3.4 million was covered by federal depository insurance, $933.1 million was collateralized with securities held by the State's agent in the State's name, and $.5 million of demand deposits was exposed to custodial credit risk and was uninsured and uncollateralized. Compensating balances kept in demand deposit accounts to avoid service charges totaled $182.8 million at September 30, 2008.

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits.

MCL Section 487.714 requires State deposits be held in a financial institution which maintains a principal office or branch office located in the State of Michigan. The State had no Common Cash deposits subject to foreign currency risk at September 30, 2008.

Common Cash Investments

Types of Investments
Common Cash investments include prime commercial paper, corporate notes, and emergency municipal loans.

Risk
In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. Custodial credit risk, credit risk, and interest rate risk are discussed in the following paragraphs.

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either:

The counterparty, or

The counterparty's trust department or agent but not in the government's name.

The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2008, Common Cash investments were not exposed to custodial credit risk.

Credit Risk
Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations.

Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services: Standard and Poor's (A-1), and Moody's (P-1). Borrowers must have at least $400.0 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of a borrower's outstanding debt. The investments are further limited to $200.0 million in any borrower, unless the borrower has an A-1+ rating, in which case the investment is not to exceed $300.0 million. The sugar beet loans are evidenced by unrated zero interest promissory notes.

Emergency municipal loans are evidenced by unrated notes held by the State in the State's name. At September 30, 2008, prime commercial paper investments were rated at A-1 or P-1.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2008, the fair value of cash equivalents was $1.8 billion; the weighted average maturity was 15 days.

The State Treasurer does not have a policy for controlling interest rate risk regarding the Common Cash special loan programs described earlier. These loan programs are investments created through legislation. Although some interest rate risk exposure exists, this risk is not a consideration when entering into these loan programs.

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent amounts due to the State at September 30, for revenues earned in fiscal year 2008, which will be collected sometime in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts expected to be collected beyond the next fiscal year are classified as "noncurrent." The receivables have been recorded net of allowances for uncollectibles.

Sales, use, Michigan business, and income taxes are accrued to the extent that the related sales, wage, or activity being taxed occurred prior to October 1. Property taxes are accrued if the levy date occurred prior to October 1.

Local units of government, as agents for the State, assess the state education tax, a statewide property tax. The state education tax is levied on July 1 and is due and payable at the same time as local unit taxes levied on July 1. The State accrues state education tax revenue received by the State or the local units, on its behalf, during October and November. The accrued telephone and telegraph taxes are due December 1 and were received at approximately that time.

In the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting. In the governmental fund financial statements, revenue is recorded using the modified accrual basis of accounting for amounts due to the State at September 30 (as stated above), that are considered "available" (e.g. received by the State within approximately 60 days after that date). Delinquent taxes are recognized to the extent that they are collected within 12 months. The remainder is recorded as deferred revenue.

Effective January 1, 2008, the State replaced the single business tax with the Michigan Business Tax (MBT). Due to the change in the law, taxpayers have until April 2009 to submit their final MBT tax returns indicating the total tax liability incurred. As a result, the State is unable to estimate an accrual beyond the 60-day period as the data needed to compare tax payments received to the total tax liability is not available. Therefore, the accrual and related revenue expected to be collected beyond the 60-day period is not measurable and has not been recorded in this fiscal year.

Taxes receivable as of September 30, consisted of the following (in millions):

Tax	General Fund	Special Revenue Funds	Total
Sales & use	$ 345.9	$ 686.0	$ 1,031.9
Individual income	2,149.6	322.3	2,471.9
Single business	696.8	-	696.8
Michigan business	477.4	-	477.4
State education (property)	-	1,550.2	1,550.2
Telephone & telegraph	38.0	-	38.0
Motor fuel	-	193.1	193.1
Insurance - retaliatory	68.5	-	68.5
Tobacco products	80.2	51.2	131.4
Quality assurance assessment	122.0	-	122.0
Other	33.5	41.8	75.3
Penalties and interest	1,063.9	-	1,063.9
Gross taxes receivable	5,075.7	2,844.6	7,920.3
Less allowance for uncollectibles	1,932.1	461.7	2,393.8
Total taxes receivable (net)	$ 3,143.6	$ 2,382.9	$ 5,526.6
As reported on the financial statements			
Current Taxes Receivable	$ 2,890.3	$ 2,310.4	$ 5,200.7
Noncurrent Taxes Receivable	253.3	72.5	325.9
Total Taxes Receivable (net)	$ 3,143.6	$ 2,382.9	$ 5,526.6

NOTE 7 – JOINT VENTURES

The State participates in two joint ventures as described below. Joint ventures are not reflected as component units within this report because they do not meet the generally accepted accounting principles criteria for inclusion. Their separately issued financial statements may be obtained by directly contacting the applicable organizations. To obtain their phone numbers, you may contact the Office of the State Budget, Office of Financial Management, Financial Reporting Section at (517) 373-3029.

Great Lakes Protection Fund
The Great Lakes Protection Fund (GLPF) is a not-for-profit corporation located in Evanston, Illinois. Its purpose is to finance and support research with respect to water quality of the Great Lakes. The eight states bordering the Great Lakes are eligible to become members if they make a required contribution to the endowment of GLPF.

Contribution requirements were established based upon water consumption and usage. Contributions to GLPF are permanently restricted and are not available for disbursement. Michigan is the largest contributor, having made a contribution of $25.0 million, constituting approximately 31% of the total. Michigan made its required contribution by issuing GLPF a general obligation bond authorized as part of the State's environmental protection bond program. No additional contributions from Michigan will be required.

Two members on GLPF's board of directors represent each of the participating seven member states. The states' respective governors select the board members. Directors control GLPF's financing and budgeting operations, within requirements established by the Articles of Incorporation. One-third of the net earnings on total contributions (after operating expenses) is granted to the respective states in proportion to their contributions to GLPF. Two-thirds of the net earnings are available to GLPF to make other grants. The State's equity interest in GLPF of $25.0 million is reflected as an asset in the government-wide financial statements.

Joint International Bridge Authority
The International Bridge in Sault Ste. Marie, Michigan is a joint venture of the State and Canadian governments. The Joint International Bridge Authority (JIBA) consists of six people, three appointed by each government. JIBA oversees the operations and maintenance of the Bridge. The International Bridge Administration, an administrative entity within the Michigan Department of Transportation, is responsible for the day-to-day operations of the Bridge. JIBA reimburses the State for costs incurred to provide these services.

For the period ending December 31, 2007 (JIBA's most recently audited financial statements), its net assets increased by approximately $.7 million. The Bridge and the ancillary assets on Michigan's side of the Bridge, in addition to one-half of the balance of funds not required to pay liabilities, represent the State's equity interest. The State is obligated to pay one-half of any claims incurred by JIBA that are not covered by insurance or existing resources. The State's equity interest of $7.9 million is reflected as an asset in the government-wide financial statements.

NOTE 8 – DEPOSITS AND INVESTMENTS

This note provides information for all deposits and investments except those of the Common Cash pool, which are described in Note 5.

Deposits - Primary Government

Custodial Credit Risk
In addition to equity in the Common Cash pool, some State funds maintain deposits with financial institutions. At present, only the Michigan Unemployment Compensation Funds (MUCF), the State Treasurer's Escrow and Paying Agent Fund (STEPAF), the Attorney Discipline System (ADS), and the Michigan Education Savings Plan (MESP) maintain these deposits and are exposed to custodial credit risk.

The Unemployment Insurance Agency administers, under the auspices of the federal government, the deposits of the MUCF. Tax collections are deposited in a clearing account as required by the Michigan Employment Security Act. Refunds are paid from that account; after the clearance of vouchers for refunds, all other money remaining in the fund, less amounts needed for refunds and judgments, must be deposited with the Secretary of the Treasury of the United States of America to the credit of the State in the Unemployment Trust Fund, established and maintained pursuant to Section 904 of the Social Security Act, 42 USC 1104. These deposits are maintained in the Federal Reserve Bank. At year-end, the carrying amount of these deposits, excluding those classified as investments, was negative $28.6 million, which was caused by a net book cash overdraft. The bank balance of the deposits was $17.0 million, of which $.1 million was covered by federal depository insurance and $16.9 million was book-entry securities held by pledging custodial banks at the Federal Reserve Bank in the State's name.

The deposits of the STEPAF were reflected in bank accounts at $.1 million; these deposits were uninsured and uncollateralized, and were therefore exposed to custodial credit risk. This fund was administratively created and is used to account for investments held in escrow by the State Treasurer as fiscal agent for hospitals that have defeased Michigan State Hospital Finance Authority bonds. Michigan Compiled Laws Section 331.73g allows that the deposits shall be held in trust by the State Treasurer or by a financial institution qualified to serve as trustee pursuant to a trust agreement entered into between the authority issuing the refunding bonds and the State Treasurer or the financial institution providing for the investment and disposition of the funds.

The bank deposits of the ADS were $.2 million; these deposits were not covered by Federal Deposit Insurance Corporation (FDIC) insurance, and were uninsured and uncollateralized. ADS has no policy to address custodial credit risk. It assesses financial institutions' risk levels; only those with acceptable levels of risk are used as depositories.

The deposits of the MESP were reflected in bank accounts at $.8 million; $.1 million was insured and $.7 million was uninsured and uncollateralized. The level of risk for each financial institution is evaluated and assessed; only those with an acceptable estimated risk level are used as depositories. MESP has no other policy for controlling this risk.

Investments - Primary Government

The following table shows the carrying amounts and fair values of investments of the primary government by investment type and in total at September 30, 2008:

Primary Government Total Investments (In millions)

Investment Types	Retirement Systems	Deferred Compensation And Defined Contribution Funds	Other Funds	Total
Commercial paper	$ 1,434.2	$ -	$ 33.3	$ 1,467.6
Money market accounts	-	336.6	372.4	709.1
Government securities	3,487.7	-	712.3	4,200.0
Corporate bonds and notes	5,260.4	56.4	761.7	6,078.5
Mutual funds	95.3	1,707.4	1,093.6	2,896.4
Pooled investment funds	-	2,076.3	-	2,076.3
Equities	21,850.8	-	.2	21,851.0
Guaranteed investment contracts	-	-	37.8	37.8
Funding agreements	-	-	188.3	188.3
International	4,632.0	-	-	4,632.0
Real estate	5,765.5	-	-	5,765.5
Alternative	9,670.0	-	-	9,670.0
Accrued income	121.6	-	-	121.6
Cash collateral	(236.3)	-	-	(236.3)
Unsettled investments	192.1	-	-	192.1
Total	$ 52,273.4	$ 4,176.7	$ 3,199.7	$ 59,649.8

As reported on the Statement of Net Assets

Current investments	$ 420.6
Noncurrent investments	918.6
Total Investments	$ 1,339.3

As reported on the Statements of Net Assets and Statement of Fiduciary Net Assets

	Current Investments	Noncurrent Investments	Total
Governmental Activities	$ 311.5	$ 667.2	$ 978.6
Business-type activities	109.2	251.5	360.6
Fiduciary funds	432.8	57,877.7	58,310.5
Total Investments	$ 853.4	58,796.4	$ 58,649.8

The amounts above include losses, both realized and unrealized, that were largely the result of volatility in the financial markets, both nationally and world-wide. A substantial part of this volatility occurred toward the end of the fiscal year and continues into the current fiscal year. Despite decreases in fair value, very few principal losses have been sustained, and it is expected that many unrealized losses will be reversed.

Authority

Investment authority for the State's pension (and other employee benefit) trust funds is found in MCL Section 38.1133. This law allows the State Treasurer, as investment fiduciary, to make diverse investments in stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, and other investments. The law has prudence standards and requires that the assets of a retirement system shall be invested solely in the interest of the participants and beneficiaries, and be made for the exclusive purpose of providing benefits to the participants and the participants' beneficiaries, and of defraying reasonable expenses of investing the assets of the State system.

The investment authority for other State funds is found in their enabling statutes and/or their bond resolutions where applicable. Except as noted below, the investments of the non-pension (and other employee benefit) trust funds are comprised mostly of United States government securities.

The State Building Authority (SBA) makes diverse investments as allowed by State statute and/or bond resolutions.

The Michigan Tobacco Settlement Finance Authority (MTSFA) is authorized to invest at its discretion, in any obligation, as it determines to be proper, in accordance with MCL Section 129.267.

Investments of MUCF represent their interest in a U.S. Treasury trust fund managed by the Secretary of the Treasury pursuant to Title IX of the Social Security Act, which includes deposits from the unemployment compensation funds of various states. MUCF is credited quarterly with trust fund investment earnings, as computed on a daily basis.

The deferred compensation plans are invested in mutual funds, U.S. Treasury strips, money market funds, and pooled investment funds. During fiscal year 2008, the deferred compensation plans' investment activities were managed by a private investment firm, which invests as directed by members of the plan.

Derivatives
The State Treasurer is also authorized to invest a limited amount of pension (and other employee benefit) trust funds in derivatives to provide additional diversification. Such investments were made in swap agreements, Standard & Poor's 500 and Standard & Poor's Midcap Index and Bond Index futures contracts, and option contracts during the year. At September 30, 2008, there was $2.9 billion invested in swap agreements, futures contracts, and option contracts. Derivatives are not used for speculation and they are not used to leverage the investment portfolios. Approximately 12% of the total pension (and other employee benefit) trust funds portfolio has been invested from time to time in swap agreements, futures contracts, and option contracts. The swap agreements pay quarterly to the counterparty, over the term of the swap agreements, interest indexed to the three month London Interbank Offered Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. United States domestic LIBOR-based floating rate notes and short-term investments were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these floating rate notes and short-term investments. Swap agreements represent the largest category of derivatives used and total approximately 6.0% of the total portfolio.

Investment Pools
In July 2004, four state retirement systems' (State Employees', State Police, Public School Employees', and Judges') investments were contributed to an investment pool structure. A pro rata share of the entire pool represents each system's ownership of a portion of the investments in the State's pool.

Repurchase Agreements
As a matter of administrative policy, the State Treasurer makes only limited use of investments in repurchase agreements. No such investments were outstanding at year-end.

Risk
GASB Statement No. 40, Deposit and Investment Risk Disclosures, requires certain disclosures regarding policies and practices with respect to the risks associated with investments. The custodial credit risk, the credit risk, the interest rate risk, the foreign currency risk and concentration of credit risk are discussed in the following paragraphs.

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either the counterparty, or the counterparty's trust department or agent, but not in the government's name.

The State Treasurer does not have a policy for limiting custodial credit risk. As of September 30, 2008, government securities with a market value of $25.0 million were exposed to custodial credit risk. These securities were held by the counterparty, not in the name of the retirement systems.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Short-term investments for the pension funds are in prime commercial paper and follow the same policy described in Note 5 for this type of investment. The ratings at September 30 are included in the debt investments table.

All long-term fixed income investments, unless unrated, must be investment-grade at the time of purchase, unless specific requirements are met. Investment grade, as defined in MCL Section 38.1132 includes: investments in the top four major grades, rated by two national rating services. The State Treasurer's policy is to use Standard & Poor's (AAA, AA, A, BBB); and Moody's (Aaa, Aa, A, Baa). The primary government's debt investments as of September 30, 2008, are presented below. Note that securities backed by the full faith and credit of the United States Government are excluded.

Debt Investments (In millions)

Investment Type	Fair Value	Rating S & P	Fair Value	Rating Moody's
Pension (and Other Employee Benefit) Trust Funds:				
Retirement Systems:				
Commercial paper	$ 1,434.2	A-1	$ 1,434.2	P-1
Government securities				
U.S. agencies – sponsored	1,764.3	AAA	1,764.3	Aaa
Corporate bonds & notes	646.8	AAA	537.0	Aaa
	688.6	AA	753.0	Aa
	2,148.6	A	2,093.1	A
	988.7	BBB	1,039.6	Baa
	14.8	BB	17.4	Ba
	3.7	B	1.2	B
	.5	CCC	3.1	Caa
	-	CC	.4	Ca
	-	C	.1	C
	.2	D	-	D
	104.6	Unrated	151.7	Unrated
International*	515.9	AAA	515.9	Aaa
	1,333.8	AA	1,495.4	Aa
	1,472.5	A	1,460.2	A
	249.3	Unrated	99.9	Unrated
Mutual funds**	32.0	AA	32.0	Aa
	9.4	BB	9.4	Ba
Total	$ 11,408.0		$ 11,408.0	
Deferred Compensation/Defined Contribution:				
Common trust funds	$ .8	AAA	$ .8	Unavailable
	1,378.7	AA	1,378.7	Unavailable
	8.9	Unrated	8.9	Unavailable
Mutual funds	56.4	AA	56.4	Unavailable
Money market funds	336.6	A-1+	336.6	Unavailable
Total	1,781.4		1,781.4	
Other Primary Government Funds:				
Commercial paper	$ 33.3	A-1+	$ 33.3	Unavailable
Government securities				
U.S. agencies - sponsored	300.4	AAA	262.3	Aaa
U.S. agencies - sponsored	-	A-1+	38.1	Unavailable
Corporate bonds & notes	52.4	AAA	51.5	Aaa
	25.6	AA	22.8	Aa
	76.5	A	80.3	A
	13.6	BBB	13.6	Baa
Guaranteed investment contract	37.8	A	37.8	Unavailable
Mutual funds	148.8	Unavailable	148.8	Aaa
	444.8	Unavalable	444.8	Aa
Treasury trust fund pool	35.3	Unrated	35.3	Unrated
Total	$ 1,168.5		$ 1,168.5	
Total Primary Government	$ 14,357.9		$ 14,357.9	

*International Investment types consist of domestic floating rate notes that are used as part of a swap strategy.
**Average Quality Rating.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates of debt investments that will adversely affect the fair value of those investments.

The State Treasurer's policy states that cash equivalents are invested in short term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2008, the fair value of prime commercial paper was $1.4 billion; the weighted average maturity was 5 days.

The State Treasurer does not have a policy regarding interest rate risk for long-term debt investments. However, the pension trust funds are invested with a long-term strategy with no investments with a maturity of less than one year at the time of purchase. The goal is to balance higher returns while accepting minimum risk for the return. Analyzing the yield curve on individual securities as compared to U.S. Treasuries determines, in part, what is an acceptable risk for the return. Therefore, market conditions such as lower interest rates result in shorter duration; higher interest rates result in longer duration.

As of September 30, 2008, the pension trust funds had the following long-term debt securities:

Pension (and Other Employee Benefit) Trust Funds
Debt Securities (In millions)

	Fair Value	Duration In Years
Retirement Systems:		
Governmental		
U.S. Treasury	$ 103.2	6.8
U.S. Agency – Backed	2,221.0	5.4
U.S. Agency – Sponsored	1,764.3	4.1
Total Government	4,088.5	
Corporate	4,596.5	5.4
International*		
Corporate	3,571.5	-
Mutual fund - fixed income	41.4	4.1
Total	$12,298.0	
Deferred Compensation/Defined Contribution:		
Common trust funds		
Traditional GIC/BICs	$ 129.4	1.3
Buy and hold synthetics	9.4	.8
Global wrap synthetic contracts	1,084.4	3.2
SSgA daily bond market index fund	164.9	4.8
Total Common Trust	1,388.1	
Money market funds	336.6	.1
Mutual funds	56.4	8.4
Total	$ 1,781.1	
Total Pension (and Other Employee Benefit) Trust Funds	$ 14,079.1	

*International debt securities contain domestic government and corporate securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.

For the other primary government funds, fixed income is invested in a laddered, time-segmented structure allowing for intermittent cash flows as needed.

As of September 30, 2008, the primary government, excluding pension trust funds, had the following debt securities:

Other Funds
Debt Securities (In millions)

Investment Type	Fair Value	Investment Maturities (In years) Less Than 1	1 To 5	6 To 10	More Than 10
U.S. Treasury SLGS	$ 6.9	$ 6.9	$ -	$ -	$ -
U.S. Treasury bonds	321.0	69.5	174.4	56.4	20.7
U.S. Bonds – backed	46.7	-	-	.6	46.1
U.S. Agency bonds – sponsored	300.4	25.0	72.8	170.9	31.8
Corporate bonds	168.2	1.0	67.1	80.7	19.4
Guaranteed investment contracts	37.8	-	-	-	37.8
Mutual funds	593.5	-	-	-	593.5
Total	$ 1,474.4	$ 102.3	$ 314.3	$ 308.5	$ 749.3

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. The pension trust funds invest in various foreign securities. These investments are limited to 20% of the total assets of the system, and are additionally limited to 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in MCL Sections 38.1133 and 38.1140. The types of foreign securities include equities, mutual funds, real estate, and limited partnerships. At September 30, 2008, foreign investments were approximately 7% of total assets of the systems; total foreign investments were $3.8 billion. As of September 30, 2008, the pension (and other employee benefits) trust funds held the following investments subject to foreign currency risk:

Pension (and Other Employee Benefit) Trust Funds
Foreign Currency Risk (In millions)

		Market Value (In U.S. Dollars)		Equities - International	
Currency	Country	Alternative Investments**	Equities	Equities	Derivatives*
Retirement Systems:					
Americas					
Dollar	Canada	$ -	$ -	$ 6.2	$ -
Peso	Mexico	-	52.6	-	-
Real	Brazil	-	.4	-	-
Europe					
Euro	European Union	976.8	81.3	37.0	(97.2)
Franc	Switzerland	-	79.5	3.7	(16.6)
Krona	Sweden	-	-	1.1	(4.0)
Krone	Denmark	-	-	1.4	(3.8)
Krone	Norway	-	-	.9	(4.9)
Sterling	United Kingdom	39.3	.9	18.7	(100.6)
Asia/Pacific					
Dollar	Australia	-	-	4.5	(42.0)
Renminbi	China	-	9.2	-	-
Dollar	Hong Kong	-	-	.9	(11.0)
Yen	Japan	4.5	112.2	11.1	(59.4)
Dollar	Singapore	-	-	1.6	(5.3)
Won	South Korea	-	-	-	(25.1)
Middle East					
Shekel	Israel	-	.6	-	-
Mutual Funds					
Various	Various	746.0	40.5	1,906.1	-
Total		$ 1,766.5	$ 377.3	$ 1,993.3	$ (369.9)
Deferred Compensation/Defined Contribution:					
Mutual Funds					
Various	Various	-	472.6	-	-
Total		$ 1,766.5	$ 849.8	$ 1,993.3	$ (369.9)

*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2008 through September 2011, with an average maturity of 1.8 years. For more information, see the derivatives section of this note.

**$746.0 million disclosed in this column consists of international real estate investments held by the pension trust funds.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investments with a single issuer.

Other than obligations issued that are assumed or guaranteed by the United States, its agencies, or United States government-sponsored enterprises, the pension systems are prohibited by MCL 38.1137 from investing in more than 5% of the outstanding obligations of any one issuer or investing more than 5% of a system's assets in the obligations of any one issuer.

At September 30, 2008, there were no investments in any single issuer more than 5% of the system's assets, nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

Pension trust fund investments represent 94.6% of the total investments of the primary government. Other large holders of investments were the State Lottery Fund (SLF), MESP, and the Michigan Natural Resources Trust Fund (MNRTF).

SLF investments, $321.0 million, are all in the form of zero coupon U.S. Treasury bonds. These investments are held to provide funding for deferred prize awards.

Securities Lending Transactions
Under the authority of MCL Section 38.1133, the State lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The custodian is not liable for any losses unless there is negligence or willful misconduct on its part. State statutes allow the State to participate in securities lending transactions and the State has, by way of an Agreement, authorized Credit Suisse, the agent bank, to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement. During the fiscal year, the agent bank lent, at the direction of the State Treasurer, the State's securities and received cash (United States) as collateral. Borrowers were required to deliver collateral for each loan equal to (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issues by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans that the agent bank made on its behalf. The agent bank indemnified the State by agreeing to purchase replacement securities, or return cash collateral in the event the borrower failed to return the loaned securities or pay distributions thereon, due to the borrower's insolvency. There was one such failure by a borrower during the fiscal year, Lehman Brothers, Inc. (September 2008). However, there were no losses during the fiscal year resulting from the default of the borrower. As the agent bank, Credit Suisse has indemnified the State and has actively been replacing all outstanding loans with Lehman Brothers.

Under Master Securities Lending Agreements between the State and each borrower, the State Treasurer and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account. As of September 30, 2008, the investments had an average weighted maturity to next reset of 31 days and an average weighted maturity of 3.3 years. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. At September 30, 2008, the retirement systems had no credit risk exposure to borrowers. The cash received for securities on loan for the State as of September 30, 2008, was $8.9 billion. The fair market value of assets held in the dedicated collateral account at managed by Credit Suisse and held by the custodian for the State as of September 30, 2008, was $6.8 billion. The carrying amount, which is the fair market value, of securities on loan for the State as of September 30, 2008, was $8.7 billion.

At September 30, 2008, the pension trust funds had the following debt investments made from cash received as collateral for securities lent:

Debt Investments (in millions)

	Fair Value	Rating S & P	Fair Value	Rating Moody's
Securities Lending Collateral	$ 2,081.7	AAA	$ 2,138.8	Aaa
	1,778.8	AA	2,016.3	Aa
	1,842.9	A	1,578.1	A
	475.9	BBB	754.7	Baa
	94.0	BB	4.4	Ba
	20.2	B	71.9	B
	20.0	D	-	D
	519.0	Unrated	268.4	Unrated
Total	$ 6,832.4		$ 6,832.4	

Deposits and Investments - Discretely Presented Component Units

Deposits

At year-end, the carrying amount of discretely presented component units deposits, excluding those classified as investments, was $576.4 million. The deposits were reflected in the accounts of the banks at $562.0 million. Of the bank balance, $510.3 million was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Investments

The investment authority for most discretely presented component units is typically found in their enabling statutes and/or their bond resolutions where applicable. Those component units that are financing authorities generally may invest in government or government-backed securities and deposits. The Michigan Education Trust's investments are subject to an investment agreement with the State Treasurer that allows the Treasurer, acting as agent, to make diverse investments including stocks, bonds, notes, and other investments. Investment policies for the State universities are typically set forth by their governing boards and include a broad range of investment types.

Restricted Assets

Restricted investments on the government-wide Statement of Net Assets, totaling $429.5 million, represent amounts that are pledged toward the payment of outstanding bonds and notes.

The following table summarizes the investment maturities reported by the discretely presented component units (in millions):

		Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 To 5	6 To 10	More Than 10	N/A
Time deposits	$ 115.1	$ 114.7	$ .4	$ -	$ -	$ -
Money market accounts	548.7	548.7	-	-	-	-
Commercial paper	402.8	402.8	-	-	-	-
Short-term notes	76.4	76.4	-	-	-	-
Repurchase agreements	.5	-	-	.5	-	-
Government securities	956.6	559.4	165.1	183.6	48.5	-
Insured mortgage backed securities	338.7	-	1.4	.6	336.7	-
Government-backed securities	333.0	135.5	.2	15.9	181.5	-
Investment agreements	15.1	6.7	-	-	8.4	-
Corporate bonds and notes	239.9	114.0	70.2	47.7	8.0	-
Preferred stock	.9	-	-	-	.9	-
Equities	84.5	33.1	.5	-	1.4	49.5
Real estate	8.1	-	-	-	4.6	3.4
Venture capital & leveraged buyouts	43.2	-	-	37.6	5.7	-
Mutual bond/equity funds	1,120.5	197.2	80.5	104.7	290.5	447.7
Guaranteed investment contracts	1,022.3	91.7	19.3	1.5	909.8	-
Pooled investment funds	38.2	38.2	-	-	-	-
Other investments	54.6	8.1	.1	-	45.9	.5
Total Investments	$ 5,399.2	$ 2,326.5	$ 337.7	$ 392.0	$ 1,841.9	$ 501.2
Less Investments Reported as "Cash" on Statement of Net Assets	666.5					
Total Investments	$ 4,732.7					

As Reported on Statement of Net Assets	
Current investments	$ 1,405.8
Noncurrent restricted investments	429.5
Noncurrent investments	2,897.4
Total Investments	$ 4,732.7

NOTE 9 – CAPITAL ASSETS

Primary Government

Summary of Significant Accounting Policies

Methods used to value capital assets
Capital assets, which include property, plant, equipment, and infrastructure items (e.g. roads, bridges, ramps, and similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Capitalization policies
All land and non-depreciable land improvements are capitalized, regardless of cost. Equipment is capitalized when the cost of individual items exceed $5 thousand, and all other capital assets are capitalized when the cost of individual items or projects exceed $100 thousand.

The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Items not capitalized and depreciated
The State possesses certain capital assets that have not been capitalized and depreciated, because the assets are held for public exhibition, education, or research in furtherance of public service, rather than financial gain. These assets include works of art and historical treasures such as statues, monuments, historical documents, paintings, forts and lighthouses, rare library books, miscellaneous capitol-related artifacts and furnishings, and the like.

Depreciation and useful lives
Applicable capital assets are depreciated using the straight-line method, with a half-year's depreciation charged in the year of acquisition and in the year of disposal. Agencies assigned useful lives that were most suitable for the particular assets. Estimated useful lives generally were assigned as follows:

Asset	Years
Equipment	2-25
Buildings	5-50
Infrastructure	10-40
Land Improvements	5-40

Modified approach for infrastructure
The State has elected to use the "modified approach" to account for certain infrastructure assets, as provided in GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Capital asset activities for the fiscal year ended September 30, 2008, were as follows (in millions):

Governmental Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, not being depreciated:					
Land	$ 3,235.2	$ 60.8	$ (.4)	$ 48.6	$ 3,344.2
Land improvements	16.9	-	-	(.7)	16.2
Construction in progress	1,008.8	409.4	(286.6)	21.3	1,152.9
Infrastructure	12,536.7	216.9	(96.3)	(20.4)	12,636.9
Mineral rights	19.8	-	-	-	19.8
Total capital assets, not being depreciated	16,817.4	687.0	(383.2)	48.7	17,170.0
Capital assets, being depreciated:					
Land improvements	116.4	6.8	(5.1)	3.5	121.5
Equipment and vehicles	772.7	85.4	(14.6)	2.8	846.3
Buildings	3,341.1	132.9	(63.0)	21.1	3,432.0
Infrastructure	704.5	3.4	(.6)	3.9	711.1
Total capital assets, being depreciated	4,934.7	228.5	(83.4)	31.2	5,111.0
Less accumulated depreciation for:					
Land improvements	(49.3)	(3.8)	4.2	.1	(48.8)
Equipment and vehicles	(573.7)	(56.6)	13.1	(4.8)	(621.9)
Buildings	(1,266.1)	(97.5)	40.5	4.3	(1,318.9)
Infrastructure	(426.3)	(26.4)	.6	(.1)	(452.2)
Total accumulated depreciation	(2,315.5)	(184.3)	58.5	(.5)	(2,441.8)
Total capital assets, being depreciated, net	2,619.2	44.2	(24.9)	30.7	2,669.2
Governmental activity capital assets, net	$ 19,436.6	$ 731.2	$ (408.2)	$ 79.5	$ 19,839.2

The Department of Corrections has closed buildings at one prison campus and stopped construction on a building at another prison campus. The total impairment loss was $13.4 million. The impairments pertained to buildings and non-depreciable and depreciable land improvements. The Department of Corrections plans to sell these assets.

In all cases, the historical cost of the buildings has been adjusted to the lower of carrying value or fair value in the above table.

Business-type Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, being depreciated:					
Equipment	$ 4.5	$ .6	$ (.5)	$ -	$ 4.6
Total capital assets, being depreciated	4.5	.6	(.5)	-	4.6
Less accumulated depreciation for:					
Equipment	(4.1)	(.1)	.5	-	(3.8)
Total accumulated depreciation	(4.1)	(.1)	.5	-	(3.8)
Total capital assets, being depreciated, net	.4	.4	-	-	.8
Business-type activity capital assets, net	$ .4	$ .4	$ -	$ -	$ .8

Depreciation expense was charged to functions of the primary government as follows (in millions):

	Amount
Governmental Activities:	
General government	$ 25.0
Education	.2
Human services	8.1
Public safety and corrections	47.2
Conservation, environment, recreation, and agriculture	10.3
Labor, commerce, and regulatory	2.0
Health services	7.2
Transportation	36.6
Depreciation on capital assets held by the State's internal service funds is charged to the various functions based on their use of the assets.	47.8
Total Depreciation Expense – Governmental Activities	$ 184.3
Business-type Activities:	
Enterprise	.1
Total Depreciation Expense – Business-type Activities	$ .1

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in millions):

	Amount
State Universities:	
Land and other non-depreciable assets	$ 106.6
Buildings, equipment, and other depreciable assets	4,668.8
Construction in progress	136.5
Total	4,911.9
Less accumulated depreciation	(1,816.0)
Capital Assets, net – State Universities	3,095.9
Capital Assets, net – Authorities	143.8
Capital Assets, Total – Discretely Presented Component Units	$ 3,239.8

NOTE 10 – PENSION BENEFITS

Defined Benefit Pension Plans

PLAN DESCRIPTION

The State of Michigan administers the following defined benefit pension plans:

Name	Type of Plan	Participating Employers
Legislative Retirement System (LRS)	Single Employer	1
State Police Retirement System (SPRS)	Single Employer	1
State Employees' Retirement System (SERS)	Single Employer	1
Public School Employees' Retirement System (PSERS)	Cost sharing multi-employer	715
Judges' Retirement System (JRS)	Cost sharing multi-employer	141
Military Retirement Plan (MRP)	Single Employer	1

Each plan, except MRP, is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports, except LRS, may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111. The LRS report may be obtained by writing to the Michigan Legislative Retirement System, House Office Building, Suite S0927, P.O. Box 30014, Lansing, MI 48909 or by calling (517) 373-0575.

As mandated by legislation, all new State of Michigan employees (except Michigan State Police officers) hired on or after March 31, 1997, are members of the defined contribution retirement plan as opposed to the LRS, SERS and JRS defined benefit plans. Employees hired before that date were given the option of remaining in the defined benefit plan or transferring to the defined contribution plan. The decision is irrevocable and transfers were completed by September 30, 1998. This was a one-time opportunity. With the passage of the legislation permitting the transfer, the LRS, SERS and JRS defined benefit plans became closed systems.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Methods Used to Value Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments not having an established market are recorded at estimated fair value.

Description of Benefits

State statutes require that the State plans provide certain retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. LRS life Insurance benefits are provided through the defined benefit pension plan and are accounted for as pension benefits. The LRS life insurance benefits are paid on an advance-funded basis. The actuarial cost method and actuarial assumptions are the same as for the pension plan.

Contributions and Reserves

SERS members are allowed to purchase service credits by entering into a contract with duration of up to 20 years. At September 30, 2008, the short term receivable was $10.6 million and the discounted long term receivable was $53.8 million.

Significant Investments

No investment of any of the pension plans comprises 5% or more of the net assets available for benefits. There are no significant investments made in securities issued by the State, nor are there any loans made from the pension plans to the State. Additional disclosures concerning investments are provided in Note 8 and, concerning State Treasurer's Common Cash, in Note 5.

FUNDING POLICY

The Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for each plan.

Plan members for SPRS, SERS, and MRP are not required to contribute to the plans. Plan members for LRS are required to contribute based on the following: for participants prior to January 1, 1995, the required contribution rate is 9.0%; for participants after January 1, 1995, the required contribution rate is 7.0%. Plan members for JRS are required to contribute 5.87% (weighted average) of annual covered salary.

For MRP, there is no underlying payroll of participants. Except for five special duty members, retirants receive $600 in annual pension benefits. Accordingly, the annual required contribution from the State is determined as a dollar amount, not as a percentage of payroll. For fiscal year ending September 30, 2008, this amount was $3.8 million.

For LRS, SERS, and SPRS, statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding or a level-percent-of-payroll principles so the contribution rates do not have to increase over time. The following are the required contribution rates for the fiscal year ending September 30, 2008: SPRS, 27.52% of annual active payroll; SERS, $308.02 million; LRS, no required contribution.

For JRS, the State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. The following table provides a schedule of annual required employer contributions for JRS.

Year Ended September 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2008	-	-
2007	.2	124.0
2006	.6	108.0

ANNUAL PENSION COST AND OTHER RELATED INFORMATION

Annual pension cost and related information for the current year for the State's single employer defined benefit plans is as follows (amounts in millions):

	LRS	SPRS	SERS	MRP*
Annual Pension Cost and Net Pension Obligation:				
Annual required contribution	$ -	$ 33.67	$ 308.02	$ 3.81
Interest on net pension asset (obligation)	(.08)	3.35	42.82	.86
Adjustment to annual required contribution	.29	(2.55)	(46.14)	(.92)
Annual pension cost	.21	34.46	304.70	3.74
Contributions made	-	34.36	355.73	3.20
Change in net pension asset/obligation	.21	.10	(51.04)	.55
Net pension (asset) obligation at beginning of fiscal year	(1.20)	41.82	535.23	10.70
Net pension (asset) obligation at end of fiscal year	$ (.99)	$ 41.91	$ 484.19	$ 11.25

*For MRP, information provided is based on most recent biennial actuarial valuation.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multi-year trend information about whether the actuarial value of plan assets for the pension plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

	LRS	SPRS	SERS	MRP
Latest actuarial valuation date	9/30/2008	9/30/2007	9/30/2007	9/30/2007
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level percent of payroll open	Level percent of payroll closed	Level dollar closed	Level dollar closed
Remaining amortization period	5 years	29 years	29 years	28 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	Market value
Actuarial assumption:				
Investment rate of return	7%	8%	8%	8%
Projected salary increases	4%	3.5-93.5%	3.5-14.4%	4%
Includes inflation at	4%	3.5%	3.5%	3.5%
Cost-of-living adjustments	4% annual compounded (non-compounded for legislators who first became members after 1/1/95)	2% annual non-compounded with maximum annual increase $500	3% annual non-compounded with maximum annual increase $300	3.5% for special duty retirants

THREE YEAR HISTORICAL TREND INFORMATION

The following table provides a schedule of funding progress for the State's single employer defined benefit plans (amounts in millions):

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
LRS							
	9/30/08	$ 170.0	$ 169.4	$ (0.6)	100.3%	$ 1.3	(44.3)%
	9/30/07	167.8	163.3	(4.4)	102.7	1.3	(338.5)
	9/30/06	159.3	158.4	(0.9)	100.6	2.0	(46.6)
SPRS**							
	9/30/07	1,259.1	1,451.9	192.7	86.7	118.2	163.0
	9/30/06	1,204.2	1,385.9	181.6	86.9	115.9	156.7
	9/30/05	1,090.3	1,300.3	210.0	83.8	117.6	178.5
SERS**							
	9/30/07	11,343.5	13,161.7	1,818.1	86.2	1,825.9	99.6
	9/30/06	10,889.9	12,798.5	1,908.6	85.1	1,847.7	103.3
	9/30/05	9,896.7	12,400.4	2,503.6	79.8	1,880.2	133.2
MRP*							
	9/30/07	-	41.9	41.9	-	.6	6,983.3
	9/30/05	-	40.6	40.6	-	.5	8,120.0
	9/30/03	-	41.3	41.3	-	.6	6,883.0

*Actuarial valuation performed biennially.

**The most recent actuarial valuation was performed as of September 30, 2007.

The following table provides a schedule of annual pension cost and net pension obligation for the State's single employer defined benefit plans (amounts in millions):

	Year Ended September 30	Annual Cost	Percentage Contributed	Net Obligation (Asset)
LRS	2008	.2	-	(1.0)
	2007	.6	-	(1.2)
	2006	.3	-	(1.5)
SPRS	2008	34.5	99.7	41.9
	2007	33.1	73.6	41.8
	2006	36.6	68.5	33.8
SERS	2008	304.7	116.7	484.2
	2007	313.9	61.2	535.2
	2006	365.1	74.1	413.5
MRP	2008	3.7	85.4	11.2
	2007	3.6	88.5	10.7
	2006	3.6	82.9	10.4

Defined Contribution Pension Plans

State of Michigan Defined Contribution Retirement Plan

The State of Michigan Defined Contribution Retirement Plan (Plan) was established to provide benefits at retirement to employees of the State (except Michigan State Police officers) who were hired after March 31, 1997, and to those members of the State Employees' Retirement System (defined benefit), Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. The Plan is administered by the Department of Management and Budget. The State is required to contribute 4% of annual covered payroll. The State is also required to match employee contributions up to 3% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Legislature. Employer contributions to the plan for the year totaled $81.6 million. Participant contributions to the plan were $30.7 million. The reports may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

The following investments represent 5% or more of net plan assets at September 30, 2008: Common Trust Funds: Traditional GICs/BICs, $49.4 million; Global Wrap Synthetic Contracts, $369.3 million; SSGA Daily Bond Market Index Fund, $112.4 million; Money Market Funds, $228.1 million.

Component Units

In addition to the Public School Employees' Retirement System (PSERS), the State university component units participate in the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution multiple-employer pension plan. The State university component units are required to contribute between 4% and 15% of annual covered payroll, as determined by each institution's employment agreements. The total contribution to the TIAA-CREF for all State university component units was $75.3 million for the year ending June 30, 2008.

Additional plan information may be found in the separately issued financial reports of the State university component units.

Effective January 1, 2004, the State Bar of Michigan assumed responsibility for the retirement plans of State Bar employees who participated in the State of Michigan Defined Contribution Retirement Plan (Plan). All monies held in the Plan on behalf of participating State Bar employees were subsequently transferred to the newly established State Bar 401(a) retirement plan and the 457(b) retirement plan. The State Bar of Michigan is required to make minimum contributions and may establish other benefit provisions for their retirement plans. The State Bar of Michigan's contribution to the new plans was $.4 million for the year ended September 30, 2008.

Additional information for the retirement plan can be obtained by contacting the State Bar at (517) 372-9030.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

Other Postemployment Benefit Plans

PLAN DESCRIPTION

The State of Michigan administers the following other postemployment benefit (OPEB) plans:

Name	Type of Plan	Participating Employers
Legislative Retirement System (LRS)	Single Employer	1
State Police Retirement System (SPRS)	Single Employer	1
State Employees' Retirement System (SERS)	Single Employer	1
Public School Employees' Retirement System (PSERS)	Cost sharing multi-employer	715
Judges' Retirement System (JRS)	Cost sharing multi-employer	141
Life Insurance	Single Employer	1

Each plan, except for life insurance, is accounted for in a separate OPEB trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports, except LRS, may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111. The LRS report may be obtained by writing to the Michigan Legislative Retirement System, House Office Building, Suite S0927, P.O. Box 30014, Lansing, MI 48909 or by calling (517) 373-0575.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

Basis of Accounting
The financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Methods Used to Value Investments
Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments not having an established market are recorded at estimated fair value.

Description of Benefits
State statutes require that the State provide certain other postemployment benefits (OPEB) to many of its retired employees. Health, dental, and vision benefits as well as life insurance coverage are provided to retirees. These benefits are funded on a pay-as-you-go basis. The net assets available for benefits relate to residual balances from funding provided in prior fiscal years.

FUNDING POLICY

The Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for each plan. The State is not required to fund the plans other than the pay-as-you-go amount necessary to provide current benefits to retirees. For the fiscal year ended September 30, 2008, the State paid the following amounts (in millions) on the behalf of the following plans: $342.2, SERS; $29.1, SPRS; $4.6, LRS; $18.2, life insurance.

Plan members for SPRS and SERS are required to contribute 5%, 10%, and 10% of the monthly premium amount for health, dental, and vision coverage, respectively. Plan members for JRS are required to contribute 5% of health care premiums. JRS plan members can also enroll in the vision and dental plans of which they are required to contribute 100% of the premium. Plan members for LRS that are part of the defined benefit plan are not required to contribute and the members of the defined contribution plan are required to contribute 10% of the premiums. Life insurance is provided to retirees with the employer required to contribute 100% of the premiums.

ANNUAL OPEB COST AND OTHER RELATED INFORMATION

Annual pension cost and related information for the current year for the State's single employer OPEB plans is as follows (amounts in millions):

	LRS	SPRS	SERS	Life Insurance
Annual OPEB Cost and Net OPEB Obligation:				
Annual required contribution	$ 7.98	$ 59.03	$ 879.25	$ 57.40
Contributions made	4.64	29.13	342.19	18.21
Change in net OPEB asset/obligation	3.34	29.90	537.06	39.19
Net OPEB (asset) obligation at beginning of fiscal year*	-	-	-	-
Net OPEB (asset) obligation at end of fiscal year	$ 3.34	$ 29.90	$ 537.06	$ 39.19

*Effective October 1, 2007, the State implemented GASB Statement No. 45 prospectively, which requires reporting on an accrual basis the liability associated with other postemployment benefits and the net OPEB obligation at transition was zero.

Actuarial Valuations and Assumptions

Actuarial valuations for the OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multi-year trend information about whether the actuarial value of plan assets for the OPEB plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

	LRS	SPRS	SERS	Life Insurance
Latest actuarial valuation date	9/30/2008	9/30/2007	9/30/2007	9/30/2007
Actuarial cost method	Projected Unit Credit	Entry Age	Entry Age	Entry Age
Amortization method	Level percent open	Level percent of payroll closed	Level percent of payroll closed	Level percent of payroll closed
Remaining amortization period	30 years	29 years	29 years	30 years
Asset valuation method	Market Value	Market Value	Market Value	Market Value
Actuarial assumptions:				
Investment rate of return	4.5%	4%	4%	4%
Includes inflation at	4%	3.5%	3.5%	3.5%
Healthcare Cost Trend Rate	10% in 2009 grading to 4% in 2019	9.5% Year 1 graded to 3.5% Year 11	9.5% Year 1 graded to 3.5% Year 11	N/A

THREE YEAR HISTORICAL TREND INFORMATION*

The following table provides a schedule of funding progress for the State's single employer OPEB plans (amounts in millions):

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
LRS	9/30/2008	$14.3	$132.6	$ $118.3	10.8%	$ 11.9	994.1%
	9/30/2005	11.9	111.4	99.5	11.0	11.9	838.0
SPRS**	9/30/2007	-	918.1	918.1	-	118.2	776.7
	9/30/2006	-	944.4	944.4	-	115.9	814.9
SERS**	9/30/2007	-	12,966.0	12,966.0	-	2,949.0	439.6
	9/30/2006	-	13,499.0	13,499.0	-	2,848.0	474.0
Life Insurance**	9/30/2007	-	912.5	912.5	-	3,131.9	29.1

*This schedule will be expanded to include three years as actuarial information becomes available.

**The most recent actuarial valuation was performed as of September 30, 2007.

The following table provides a schedule of annual OPEB cost and net OPEB obligation for the State's single employer OPEB plans (amounts in millions)*:

	Year Ended September 30	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation (Asset)
LRS	2008	$ 8.0	58.2%	$ 3.3
SPRS	2008	59.0	49.4	29.9
SERS	2008	879.2	38.9	537.1
Life Insurance	2008	57.4	31.7	39.2

*This table will be expanded to include three years as actuarial information becomes available.

NOTE 12 – LEASES

Accounting Policy

The State leases various assets under non-cancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

For capital leases in governmental funds, other financing sources and expenditures are recorded at lease inception. Lease payments are recorded as debt service expenditures. For budgetary purposes, lease payments are only reported as expenditures when paid.

Most leases have cancellation clauses with one to six month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable, because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Some lease agreements include escalation clauses or other contingent rentals.

The State has entered into a few installment purchase agreements. Because the amounts involved are immaterial, and the accounting treatment is similar, such agreements are reported together with capital leases.

Leases that exist between the State and the State Building Authority (SBA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, SBA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide financial statements for the bonds issued by SBA to construct the assets associated with the leases. Future payments to SBA are, therefore, not included in the schedules of lease commitments below. Note 13 provides information on the amount of the SBA's bonds outstanding and a schedule of debt service requirements.

During the fiscal year, the State entered into a building lease agreement with the Michigan Strategic Fund (MSF), a discretely presented component unit. The lease was classified as a capital lease and is included in the capital lease disclosures below.

Primary Government – Governmental Activities

Rental expenditures incurred under operating leases totaled $62.2 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totaled $24.7 million, $33.0 million, and $25.8 million, respectively, during the fiscal year. Included in these amounts were payments to MSF for principal, interest, and executory costs totaling $2.1 million, $1.9 million, and $65 thousand, respectively.

A summary of the operating and noncancelable capital lease commitments to maturity follows (in millions):

Year Ended September 30	Operating Leases	Capital Leases Principal	Interest	Executory Costs	Total
2009	$ 35.7	$ 22.6	$ 34.3	$ 25.2	$ 82.1
2010	30.4	20.3	32.2	24.5	77.0
2011	22.3	17.6	30.4	22.8	70.8
2012	13.8	15.3	28.8	21.7	65.8
2013	7.4	13.8	27.3	20.7	61.8
2014-2018	21.8	74.0	113.6	96.7	284.3
2019-2023	4.0	75.2	73.7	82.3	231.2
2024-2028	-	53.0	35.9	72.6	161.6
Thereafter	-	28.5	4.5	33.7	66.7
Total	$ 135.5	$ 320.5	$ 380.7	$ 400.2	$ 1,101.3

The above capital leases relate to governmental activities which include the General Fund, special revenue funds, and the internal service funds. A liability of $320.5 million has been recorded in the government-wide financial statements for the capital lease principal. Included in this liability is the capital lease between the State and MSF totaling $82.9 million.

The historical cost of assets acquired under capital leases are included in capital assets on the government-wide financial statements at September 30 follows (in millions):

Buildings	$ 388.7
Equipment	79.3
Total	468.0
Accumulated Depreciation	(185.3)
Net Land, Buildings, and Equipment	$ 282.7

Included in the table above is the historical cost and accumulated depreciation for the capital lease between the State and MSF of $85.0 million and $2.7 million, respectively.

Primary Government – Business-Type Activities

Rental expense incurred under operating leases totaled $.6 million during the fiscal year. There were no capital lease obligations.

A summary of operating lease commitments to maturity follows (in millions):

Year Ended September 30	Operating Leases
2009	$ .5
2010	.5
2011	.4
2012	.2
2013	.1
	$ 1.7

Discretely Presented Component Units

Operating lease commitments for universities and authorities totaled $59.3 million. Total capital lease obligations were $10.1 million, $1.7 million, and $0 for principal, interest, and executory costs, respectively, during the fiscal year.

NOTE 13 – BONDS AND NOTES PAYABLE – PRIMARY GOVERNMENT

General Information

General Obligation Bonds and Notes

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund, a special revenue fund. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues. General obligation bonds are backed by the full faith and credit of the State.

The State Constitution provides that the Legislature may also authorize the issuance of general obligation short-term notes, the principal amount of which may not exceed 15% of undedicated revenues received in the preceding year. The State Constitution also provides that such notes must be repaid within the fiscal year of the borrowing. In fiscal year 2008, the State issued general obligation notes to meet cash flow requirements of the General Fund.

Short-term debt activity for the fiscal year ended September 30, 2008, was as follows (in billions):

	Beginning Balance	Draws	Repayments	Ending Balance
General Obligation Notes	$ -	$1.4	$1.4	$ -

Revenue Dedicated Bonds and Notes

Long-term bonds have been issued periodically for specific purposes, with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. The transportation related debt is payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the State Constitution. The State's general credit does not support such issues.

In previous years, the Department of Transportation issued grant anticipation notes. The notes have variable rates that may bear interest at a daily interest rate, a weekly rate, note interest term rate, long-term interest rate, or an auction rate security interest rate.

The notes are issued in accordance with the authorization provided in Michigan Compiled Laws (MCL) Section 247.668(b). The proceeds of the sale of the notes, together with investment earnings on the proceeds and other available monies, will be used to pay a portion of the costs to complete the Build Michigan II highway program, to pay capitalized interest on the notes, and to pay note issuance costs.

The principal and interest on the notes are payable solely from and are secured by an irrevocable pledge of the State share of all federal grants received each year under the Federal-Aid Highway Program. Payment of the principal and interest on the notes from the State share shall be subject to an appropriation each year by the Legislature in an amount sufficient to make the payments. As of September 30, 2008, principal payments of $600 million have been made on the notes. There are no outstanding amounts at September 30, 2008.

Revenue bonds have been issued by the State Building Authority (SBA) to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. In addition, SBA issues commercial paper notes to fund capital projects prior to bonding. Short-term debt activity for the fiscal year ended September 30, 2008, follows (in millions):

	Beginning Balance	Draws	Repayments	Ending Balance
Commercial Paper Notes	$146.7	$151.8	$88.2	$210.3

Note 14 provides disclosures regarding the bonds and notes payable of the discretely presented component units.

Bonds Issued and Outstanding

General obligation and revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30 (in millions) are as follows:

			Fiscal Year Maturities		
General Obligation Bonded Debt	Amounts Issued	Outstanding 9/30/2008	First Year	Last Year	Average Interest Rate Percentage
General Obligation Refunding Debt:					
Series 2001 (Refunding)	$ 183.3	$ 145.1	2002	2016	4.76
Series 2002 (Refunding)	300.7	263.6	2004	2017	4.41
Series 2005 A (Refunding) (3)	86.8	86.8	2017	2021	5.00
Series 2005 B (Refunding) (3)	82.8	82.8	2013	2021	5.00
Series 2005 C (Refunding) (3)	21.1	9.5	2008	2013	4.17
Series 2008 A (Refunding)	200.8	200.8	2011	2019	4.95
Series 2008 B (Refunding)	19.4	19.4	2011	2019	4.33
Series 2008 C (Refunding)	12.2	12.2	2011	2012	5.01
Series 2008 D (Refunding)	1.4	1.4	2011	2011	3.97
Recreation and Environmental Protection:					
Series 1989 (1)	75.0	8.7	1991	2012	6.81
Series 1992 (1)	246.3	58.6	1994	2013	5.50
College Savings Bonds - Series 1992 Mini-bonds (1)	.5	1.4	2012	2012	5.86
Series 1992 A (1)(2)	13.9	4.2	1995	2013	6.17
Series 1993 (1)(2)	16.7	6.3	1996	2014	5.00
Series 2000 (1)	60.0	2.8	2002	2011	5.24
Series 2001 (3)	56.8	13.1	2004	2012	4.82
Series 2003 (5)	10.0	6.0	2054	2054	0.00
Series 2003 A (1)(3)	200.0	71.5	2007	2021	5.00
Series 2006 A (1)(3)	105.0	105.0	2014	2026	4.58
Series 2006 B (5)	47.0	46.7	2007	2009	5.19
School Loan Bonds:					
Series 1998	160.0	35.9	2001	2012	4.80
Series 2005 B (4)	362.5	192.6	2017	2022	4.12
Series 2005 C (4)	113.1	113.1	2020	2024	3.50
Total General Obligation Bonded Debt	2,375.2	1,487.4			

	Amounts Issued	Outstanding 9/30/2008	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Average Interest Rate Percentage
Revenue Dedicated Bonded Debt					
State Park Related:					
2002 – Gross Revenue Bonds	15.5	12.8	2004	2023	3.58
Total Revenue Dedicated Bonded Debt – State Park Related	15.5	12.8			
Transportation Related:					
Tax Dedicated Bonds:					
Michigan Comprehensive Transportation:					
Series 1998 (Series A Refunding)	38.6	25.3	2005	2011	4.81
Series 2001 (Series A Refunding)	27.8	26.5	2008	2022	5.01
Series 2002 (Series A Refunding)	89.6	25.3	2003	2011	5.07
Series 2002 (Series B)	82.3	14.7	2004	2012	5.13
Series 2003	35.0	18.3	2004	2023	3.61
Series 2005 (Refunding)	62.2	62.2	2009	2023	5.15
Series 2006 (Refunding)	53.7	52.1	2007	2031	4.54
State Trunkline Fund Bonds:					
Series 1989 (Series A)	135.8	5.6	1994	2009	6.75
Series 1992 (Series A Refunding)	253.6	50.6	2000	2013	5.76
Series 1992 (Series B Refunding)	99.6	7.1	2000	2013	5.68
Series 1998 (Series A Refunding)	377.9	371.7	2006	2027	5.03
Series 2001 (Series A)	308.2	26.8	2003	2012	4.96
Series 2002 (Refunding)	97.9	64.2	2004	2022	4.71
Series 2004 (Refunding)	103.5	98.4	2006	2022	4.13
Series 2004	185.7	88.6	2008	2019	4.36
Series 2005 (Refunding)	223.0	223.0	2010	2023	5.10
Series 2005 B (Refunding)	378.3	378.3	2010	2019	4.81
Series 2006	244.5	233.2	2008	2022	4.74
Series 2007	485.1	485.1	2009	2027	4.85
Total Revenue Dedicated Bonded Debt –Transportation Related	3,282.2	2,256.9			
State Building Authority:					
1998 Series I Bonds (Refunding)	330.4	236.5	1999	2022	4.75
2001 Series I Bonds (Refunding)	419.7	350.5	2003	2026	5.26
2003 Series I (Refunding)	659.4	485.0	2004	2018	3.64
2003 Series II (Refunding)	392.6	174.5	2005	2030	4.42
2004 Series I	155.4	120.6	2005	2020	4.08
2005 Series I (Refunding)	293.4	278.3	2006	2034	4.84
2005 Series II (Refunding)	242.8	240.6	2007	2037	4.66
2005 Series II A Multi-modal (7)	343.6	40.1	2018	2018	8.17
2005 Series II B Multi-modal (7)	9.9	8.7	2007	2017	7.95
2006 Series I A Serial	438.3	438.3	2014	2037	4.80
2006 Series I A Capital Appreciation	891.8	891.8	2014	2037	4.80
2006 Series I B	13.7	13.7	2009	2014	4.80
2007 Series I Multi-modal (7)	96.5	96.5	2009	2032	7.92
Total State Building Authority Bonded Debt	4,287.5	3,375.1			
Michigan Tobacco Settlement Finance Authority:					
Series 2006 A	363.1	354.7	2008	2034	7.31
Series 2007 A	480.1	480.1	2010	2047	5.86
Series 2007 B	35.6	37.7	2052	2052	7.25
Series 2007 C	7.2	7.6	2052	2052	7.50
Series 2008 A	114.9	114.9	2035	2042	6.88
Series 2008 B	29.9	29.9	2046	2046	8.50
Series 2008 C	57.7	57.7	2058	2058	8.25
Total Michigan Tobacco Settlement Finance Authority Bonded Debt	1,088.5	1,082.6			
Total Revenue Dedicated Bonded Debt	8,673.8	6,727.4			
Total General Obligation and Revenue Dedicated Bonded Debt	$ 11,049.0	$ 8,214.8			

(1) Sections 324.19301 and 324.71301 of the Michigan Compiled Laws authorized the issuance of bonds totaling $800.0 million. As of September 30, 2008, $791.5 million of such bond proceeds had been received, leaving remaining authorization of $8.5 million. Sum of amounts issued in table differs by amount of bonds refunded or redeemed, premiums and discounts, and other issuance costs.

(2) The $13.9 million Series 1992A and the $16.7 million Series 1993, Recreation and Environmental Protection General Obligation Bonds, were used to provide a contribution of capital to the Michigan Municipal Bond Authority (MMBA), a discretely presented component unit. An outside trustee for MMBA is holding the bonds as an investment of MMBA; no immediate cash proceeds were provided. The trustee receives the debt service payments on the bonds, which are negotiable instruments held to subsidize water pollution control financing provided by MMBA.

(3) MCL Section 324.95102 authorized the issuance of bonds totaling $675.0 million. As of September 30, 2008, $518.8 million of such bond proceeds had been received, leaving remaining authorization of $156.2 million. Sum of amounts issued in table differs by amount of bonds refunded or redeemed, premiums and discounts, and other issuance costs.

(4) The Multi-Modal School Loan Bond Series, currently bear interest at a commercial paper rate and are remarketed at each maturity. For the future debt service requirements, interest was estimated at the interest rate in effect at September 30, 2008.

(5) November 2002, voters approved a ballot proposal in which the State would issue $1.0 billion in general obligations bonds to provide capital, which is then loaned to local units of government for water quality improvement projects. As of September 30, 2008, $145.6 million of such bond proceeds had been recognized as received, leaving remaining authorization of $854.4 million. Included in the amount recognized as received is $100.0 million in bonds issued to a discretely presented component unit, MMBA. Although no cash traded hands, MMBA (the registered owner of the bonds) is holding the bond document as collateral and issuing their own revenue bonds to generate the capital. This transaction allows the State's General Fund to defer principal and interest costs until future years when the bond is repurchased/redeemed. MMBA will fund the principal and interest costs of the revenue bonds until such time that they request the State to honor the general obligation bond document.

On December 18, 2003, the State issued $100.0 million in bonds ($10.0 million relating to Strategic Water Quality and $90.0 million relating to the previously existing State Water Quality Revolving Fund). The $10.0 million bond relating to Strategic Water Quality includes a repurchase provision that requires the State to repurchase all or any portion of this bond upon 10 days prior written notice from the registered owner, MMBA. The State anticipates at this time that if the bond repurchase was acted on, the State would issue long-term debt to finance the repurchase. This bond is being used as collateral by MMBA for the Strategic Water Quality bonds being issued by MMBA to local governments. The $10.0 million bond was reduced to a net obligation of $6.0 million when $4.0 million of the proceeds from General Obligation Recreation and Environmental Protection Series 2006B were used to refund a portion of the original obligation. For these reasons, the State has recognized the $6.0 million bond related to Strategic Water Quality as a liability in the entity-wide statements. The $90.0 million "bond" document issued for the State Water Quality Revolving Fund does not contain the 10 day repurchase provision that the $6.0 million bond does. Nor is the $90.0 million "bond" document being used as collateral by MMBA. For these reasons, the State has not recognized a liability for the $90.0 million "bond" document related to the existing State Water Quality Revolving Fund.

(6) Michigan Tobacco Settlement Finance Authority (MTSFA) issued taxable Tobacco Settlement Asset-Backed Bonds as follows: $363.1 million Series 2006 A Fixed Rate Turbo Bonds; $72.6 million Series 2006 B Indexed Floating Rate Turbo Term Bonds; $54.8 million Series 2006 C Capital Appreciation Turbo Term Bonds; $480.1 million Series 2007 A Senior Current Interest Bonds; $35.6 million Series 2007 B First Subordinate Capital Appreciation Bonds; $7.2 million Series 2007 C Second Subordinate Capital Appreciation Bonds; $114.9 million Series 2008 A Current Interest Turbo Terms Bonds; $29.9 million Series 2008 B Taxable Capital Appreciation Turbo Term Bonds; and $57.7 million Series 2008 C Capital Appreciation Turbo Term Bonds.

MTSFA was created by MCL Section 129.264, the Michigan Tobacco Settlement Finance Authority Act. As a public body corporate and politic within the Department of Treasury, it is a separate legal entity with separate corporate purposes, exercising public and essential governmental functions. MTSFA is authorized to issue bonds as needed to provide sufficient funds to purchase all or a portion of the State's Tobacco Settlement Revenues (TSRs) payable to the State under the Master Settlement Agreement (MSA) entered into by participating cigarette manufacturers in 1998. Refunding bonds may also be issued. Net proceeds of the sale of TSRs are deposited in the 21st Century Jobs Trust Fund, the School Aid Fund, the General Fund, and in a reserve fund.

The bonds were issued in accordance with the Purchase and Sale Agreement (the Agreement), dated May 1, 2006, between the State and MTSFA. Pursuant to the Agreement, MTSFA is purchasing the right, title, and interest in and to 13.3% of all the State's future TSRs payable to the State on or after April 1, 2008, as required under the terms of the MSA. In 2007, an additional 10.77% of future tobacco settlement revenue was purchased by MTSFA on amounts payable on or after May 15, 2009. In fiscal year 2008, Series 2008 bonds were issued to refund the MTSFA's outstanding Series 2006 B Indexed Floating Rate Turbo Term Bonds and to refund the MTSFA's outstanding 2006 C Capital Appreciation Turbo Term Bonds. The General Fund received $60 million from the net proceeds.

Every issue of bonds shall be special revenue obligations payable from and secured by a pledge of TSRs and other assets, including without limitation the proceeds of the bonds deposited in a reserve fund for the benefit of the owners of the bonds, earnings on funds of the authority and other funds as may become available, upon the terms and conditions as specified by the authority in the authority resolution under which the bonds are issued or in a related trust agreement of trust indenture.

The issuance of bonds under the provisions of this law shall not directly, indirectly, or contingently obligate the State or any political subdivision of this State to pay any amounts to the MTSFA or owners of bonds or benefited parties, or levy or pledge any form of taxation whatsoever for the bonds. The bonds are not a debt or liability of the State or any agency or instrumentality of the State, other than MTSFA. MTSFA is not authorized to incur any indebtedness on behalf of or in any way obligate the State or any political subdivision of the State.

(7) SBA Multi-Modal bears interest at a remarketed weekly rate. Estimated interest was computed using the weekly rates as of September 30, 2008. These unusually high rates were due to the market and economic aberrations.

Capital Appreciation Bonds

Capital appreciation and convertible capital appreciation bonds are recorded in the Bonds Issued and Outstanding table and the Changes In Bonds and Notes Payable table at their accreted year-end book value. The table that follows summarizes capital appreciation bonds (in millions):

	Accreted Book Value	Ultimate Maturity Value	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year
General Obligation Bonds:				
Series 1989	$ 8.7	$ 10.1	1999	2012
Series 1992	4.5	5.6	2000	2012
College Savings Bonds - Series 1992 Mini-bonds	1.4	1.8	2012	2012
Revenue Dedicated – Transportation Related:				
State Trunkline – Series 1989 A	5.6	6.0	2004	2009
State Trunkline – Series 1992 A	50.6	57.5	2006	2013
State Trunkline – Series 1992 B	7.1	8.0	2006	2013
Revenue Dedicated – State Building Authority:				
2006 Series I A	435.7	891.8	2017	2030
Revenue Dedicated – Michigan Tobacco Settlement Finance Authority:				
Series 2007 B	37.7	865.3	2052	2052
Series 2007 C	7.6	195.1	2052	2052
Series 2008 B	29.9	700.6	2046	2046
Series 2008 C	57.7	4,395.9	2058	2058

Advance Refundings and Defeasances

The State has defeased certain bonds through advance refundings by placing the proceeds of new bonds (i.e., the "refunding" bonds in the table of bonds issued and outstanding) in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not recorded as assets or liabilities in these statements and are not included in the other debt tables in this note.

The State has defeased certain bonds through current refundings in which the proceeds of the refunding debt are applied immediately to redeem the debt to be refunded.

The State has defeased certain bonds by placing cash with an escrow agent in a trust to be used for future payment on the debt. The following table summarizes the defeased bonds outstanding at September 30 (in millions):

	Amounts Outstanding
Recreation and Environmental Protection:	
Series 1989	$ 3.4
Series 1992	17.7
Series 1995	4.8
Series 1998	54.8
Series 1999 A	64.3
Series 2000 (partial)	42.5
Series 2001	31.6
Series 2003 A	109.4
Series 2005 C	5.1
Total Recreation and Environmental	$ 333.5
School Loan Bonds:	
Series 1998	$ 69.1
Total School Loan Bonds	$ 69.1
Comprehensive Transportation Fund Bonds:	
Series 2002 B (partial)	$ 52.9
Series 2003	9.9
	$ 62.8
State Trunkline Fund Bonds:	
Series 2001 A (partial)	$ 245.8
Series 2004 (partial)	85.2
	331.1
Total Transportation Related	$ 393.9
State Building Authority:	
1994 Series II	$ 4.5
1997 Series II	27.0
1998 Series I	56.2
2000 (MSP Phase II)	17.8
2001 (MSP Phase III)	28.0
2002 (MSP Phase IV)	20.9
1999 Series I	45.4
2001 Series I	80.9
2001 Series II	122.9
2000 Series I	107.6
2002 Series III (Refunding)	184.3
2003 Series II (Refunding)	185.8
Total State Building Authority	$ 881.2
Michigan Tobacco Settlement Finance Authority	
Series 2006 B	$ 70.9
Series 2006 C	64.9
Total Michigan Tobacco Settlement Authority	$ 135.8

General Obligation

In fiscal year 2008, the State issued $233.8 million of General Obligation Bonds, Environmental Program Series 2008 A, 2008 B, 2008 C, and 2008 D maturing in 2011 through 2019 with fixed interest rates. The bonds were issued for the purpose of providing financing for certain environmental programs and refunding certain maturities and interest payments. From the debt proceeds, $25 million was deposited to the Combined Environmental Protection Bond Fund and $223.4 million was deposited with the escrow agent. The State received an economic gain of $4.1 million through this refunding.

On July 7, 2008, the MTSFA issued Tobacco Settlement Asset Backed Bonds, Series 2008 for $202.4 million; $138.6 million of the bonds were deposited with an escrow agent and $60 million was deposited to the General Fund.

Debt Service Requirements

The following table summarizes debt service requirements for outstanding bonds (in millions):

	General Obligation			State Park, and Transportation Related		State Building Authority		Michigan Tobacco Settlement Finance Authority		Total
Fiscal Years Ending	Principal	Fixed Interest	*Estimated Interest	Principal	Fixed Interest	Principal	Interest	Principal	Interest	Total Principal And Interest
2009	$ 84.0	$ 55.9	$ 11.9	$ 82.5	$ 110.4	$ 100.5	$ 127.6	$ -	$ 61.2	$ 634.0
2010	35.9	54.3	11.9	119.4	107.0	99.1	122.6	2.7	62.0	615.0
2011	105.4	51.6	11.9	124.7	101.8	104.7	117.4	7.3	61.8	686.6
2012	111.8	46.3	11.9	116.5	96.5	111.4	111.7	8.6	61.4	676.1
2013	124.0	40.4	11.9	121.6	91.4	115.6	105.7	9.8	60.8	681.1
2014-2018	528.0	117.9	58.9	685.8	359.7	657.0	428.2	70.3	292.9	3,198.9
2019-2023	441.8	26.0	30.3	744.5	172.3	686.6	301.5	136.1	266.4	2,805.4
2024-2028	53.4	2.9	.8	273.6	38.4	579.1	217.7	199.4	196.9	1,562.1
2029-2033	-	-	-	9.2	.8	589.2	140.4	180.2	141.8	1,061.6
2034-2038	-	-	-	-	-	331.9	30.1	113.3	84.3	559.6
2039-2043	-	-	-	-	-	-	-	111.8	54.0	165.8
2044-2048	-	-	-	-	-	-	-	810.8	16.8	827.6
2049-2053	-	-	-	-	-	-	-	1,060.4	-	1,060.4
Thereafter	6.0	-	-	-	-	-	-	4,395.9	-	4,401.9
Total	$ 1,490.4	$ 395.4	$ 149.4	$ 2,277.9	$1,078.2	$ 3,375.1	$1,702.8	$ 7,106.6	$ 1,360.3	$18,936.0

*Interest for Multi-Modal Bonds future debt service requirements was estimated at the rate in effect at September 30, 2008

Interest to maturity for SBA may be significantly smaller than the amount shown in the above table because many of the bonds will be called prior to the final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific projects and any excess borrowing and accrued investment earnings are restricted to projects and debt service on the related bonds.

Changes in Bonds and Notes Payable

Changes in bonds and notes payable for the year ended September 30, 2008, was as follows (in millions):

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds Payable:						
General obligation debt	$ 1,487.5	$ 235.5	$ 235.6	$1,487.4	$ 84.0	$ 1,403.4
Revenue bonds	2,341.7	4.2	76.2	2,269.7	82.5	2,187.2
State Building Authority	3,365.7	96.5	87.1	3,375.1	100.5	3,274.6
Michigan Tobacco Settlement Finance Authority	1,018.4	210.1	145.9	1,082.6	-	1,082.6
Notes Payable:						
Transportation related	32.0	-	32.0	-	-	-
Deferred Loss on Refundings:						
General obligation debt	(29.3)	(33.9)	5.3	(57.8)	-	(57.8)
Revenue dedicated debt	(28.8)	-	2.4	(26.4)	-	(26.4)
State Building Authority	(28.8)	-	5.0	(23.9)	-	(23.9)
Michigan Tobacco Settlement Finance Authority	-	(2.8)	-	(2.7)	-	(2.7)
Unamortized Discounts:						
State Building Authority	(476.1)	-	20.0	(456.0)	-	(456.0)
Michigan Tobacco Settlement Finance Authority	(15.2)	(3.3)	.3	(18.2)	-	(18.2)
Unamortized Premiums:						
General obligation debt	56.1	16.8	5.8	67.0	-	67.0
Revenue dedicated debt	117.6	-	8.3	109.3	-	109.3
State Building Authority	109.5	-	7.3	102.2	-	102.2
Total bonds and notes payable	$7,950.4	$ 523.2	$ 565.3	$7,908.3	$ 267.0	$ 7,641.3
Plus State Building Authority commercial paper notes reported as "Current Liabilities: Bonds and Notes Payable" On The Statement of Net Assets				210.3	210.3	-
As reported on the Statement of Net Assets				$8,118.6	$ 477.3	$ 7,641.3

NOTE 14 – BONDS AND NOTES PAYABLE – DISCRETELY PRESENTED COMPONENT UNITS

Bonds and Notes Payable

Bonds Payable

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State.

The State universities and the Michigan State Housing Development Authority (MSHDA) utilize June 30 fiscal year-ends. The Farm Produce Insurance Authority utilizes a December 31 fiscal year-end, and the remaining discretely presented component units have September 30 fiscal year-ends.

The following table summarizes debt service requirements of the discretely presented component units as reported in their separately issued financial statements, utilizing their respective fiscal year-end (in millions):

Fiscal Years Ending In	Principal	Fixed Interest	Estimated Interest	Total
2009	$ 375.7	$ 525.8	$ 4.0	$ 905.5
2010	381.5	512.6	4.1	898.3
2011	318.6	495.9	3.9	818.5
2012	332.8	482.4	3.7	819.0
2013	342.3	467.3	3.5	813.2
	1,751.1	2,484.0	19.3	4,254.4
2014-2018	1,935.8	2,032.1	13.8	3,981.7
2019-2023	1,668.3	1,517.1	8.2	3,193.5
2024-2028	1,163.7	1,186.1	4.2	2,354.1
2029-2033	1,041.9	909.4	1.4	1,952.7
2034-2038	829.4	717.0	-	1,546.4
2039-2043	1,275.6	157.0	-	1,432.6
	7,914.7	6,518.7	27.6	14,461.0
Total	9,665.8	$ 9,002.8	$ 46.9	$ 18,715.4
Deferred amount on refunding	(78.1)			
Unamortized discount	(.1)			
Unamortized premium	130.7			
Total principal	$ 9,718.3			

Included in the table above is $1.7 billion of demand bonds comprised of $56.4 million issued by the Michigan Higher Education Student Loan Authority (MHESLA), $1.4 billion issued by MSHDA, and $233.3 million issued by the State universities. Defeased bonds outstanding of the Michigan Municipal Bond Authority (MMBA), MHESLA, and MSHDA are not reflected in the table above.

Notes Payable

The MMBA has short-term notes outstanding of $688.4 million as of September 30, 2008.

The Land Bank Fast Track Authority (LBFTA) has long-term notes outstanding of $.1 million as of September 30, 2008. State universities have short-term notes outstanding of $.8 million and long-term notes outstanding of $17.6 million as of June 30, 2008.

Unrecorded Limited Obligation Debt

Certain State financing authorities have issued limited obligation revenue bonds which are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. The State has no obligation for this debt. Typically, these borrowings are repayable only from the repayment of loans, unloaned proceeds and related interest earnings, and any collateral which may be provided.

The Michigan Higher Education Facilities Authority (MHEFA) issues limited obligation bonds to finance loans to private nonprofit institutions of higher education for capital improvements. As of September 30, 2008, MHEFA had bonds outstanding of $649.6 million. Of this amount, $31.3 million of bonds have been defeased in substance, leaving a remaining undefeased balance of $618.3 million.

The Michigan Strategic Fund (MSF) issues industrial development revenue bonds (taxable and tax exempt), which are not recorded as liabilities. The total amount of bonds issued for the period January 1, 1979 through September 30, 2008, was $8.3 billion. The amount of tax exempt bonds issued during the fiscal year 2008 was $104.6 million. There were $2.4 million bonds issued by MSF under the Taxable Bond Program for fiscal year 2008. These borrowings are, in substance, debts of other entities and financial transactions are handled by outside trustees.

The Michigan State Hospital Finance Authority (MSHFA) has issued $6.5 billion of no commitment bonds as of September 30, 2008. Of the above amount, $1.2 billion have been defeased in substance, leaving a remaining undefeased balance of $5.3 billion. Economic gains and accounting gains and losses resulting from in-substance defeasance, inure to the benefit of the facility for which the bonds were issued, and accordingly are not reflected in MSHFA's financial statements.

MSHDA has been authorized to issue up to $800.0 million of limited obligation bonds to finance multi-family housing projects. At June 30, 2008, limited obligation bonds had been issued totaling $787.3 million, of which 25 issues totaling $292.6 million had been retired.

MSHDA entered into several interest rate exchange agreements for a total of $1.3 billion as of June 30, 2008, representing several bond series. In accordance with the exchange agreements, MSHDA pays fixed rates ranging from 3.5% to 7.7%.

The Michigan Public Educational Facilities Authority (MPEFA) issues limited obligation bonds to finance loans to qualified public educational facilities for capital improvements. As of September 30, 2008, MPEFA had bonds outstanding of $127.8 million, all of which are undefeased.

Short-Term Debt Activity

Western Michigan University (WMU) used its revolving line of credit to finance a new student information system. Activity on the line of credit during WMU's fiscal year ended June 30, 2008, was as follows (in millions):

	Beginning Balance	Draws	Payments	Ending Balance
Line of Credit	$6.8	$ -	$6.8	$ -

NOTE 15 – OTHER LONG-TERM OBLIGATIONS

Primary Government

Other Long-Term Obligations
In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until claims, judgments, or amounts owed are "due and payable" at September 30. Expenses and liabilities for material claims and judgment losses are recorded in the government-wide and proprietary fund financial statements when the loss is considered probable.

Capital Leases
This liability is described in more detail in Note 12.

Compensated Absences
This liability is described in more detail in Note 1.

Workers' Compensation
The gross amount of workers' compensation liability, $166.0 million at September 30, 2008, has been recorded at its discounted present value of $111.5 million, using a discount rate of approximately 8%. The present value of the current portion of this liability is $24.8 million. In fiscal year 2008, State agencies paid reimbursement for actual workers' compensation claims and administrative fees totaling $39.6 million.

Net Pension Obligation
This liability is described in more detail in Note 10.

Net Other Postemployment Benefits (OPEB) Obligation
This liability is described in more detail in Note 11.

Other Claims & Judgments
The governmental activities estimated liability for other claims and litigation losses, $417.0 million at September 30, 2008, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, transportation claims, natural resources and environmental quality claims, and other claims, in which it is considered probable that costs will be incurred. Also included is an estimated liability totaling $1.4 million for arbitrage payable to the federal government for interest earned on bond proceeds. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no

liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The liability recorded for other claims and judgments within business-type activities represents overpayments by employers to the Michigan Unemployment Compensation Fund totaling $55.2 million.

Durant Settlement

The reported estimated liability for litigation losses includes the Donald Durant, et al v State of Michigan, et al consolidated cases, which totaled $230.6 million at September 30, 2008. This amount will, over time, be paid to each "non-Durant" school district for its underfunded State mandated program costs if certain requirements are met. See Note 24 for additional disclosure regarding the Durant case and other contingencies.

Federal Advances

During fiscal year 2008, the Michigan Unemployment Compensation Funds obtained repayable federal advances in the amount of $1.1 billion from the U.S. Department of Labor in accordance with provisions of Section 1201 of the Social Security Act (also referred to as Title XII Advances). Federal advances of $362.4 million were outstanding at September 30, 2008.

Changes in Other Long-Term Obligations

Changes in long-term liabilities for the year ended September 30, 2008, are summarized as follows (in millions):

Governmental Activities	Beginning Balance (Restated)**	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Other Long-term Obligations:						
Capital lease obligations:						
Component units	$ -	$ 85.0	$ 2.1	$ 82.9	$ 3.7	$ 79.2
Others	247.9	31.0	41.3	237.6	18.9	218.7
Compensated absences	501.4	346.7	352.6	495.4	341.9	153.5
Workers' compensation	112.9	23.7	25.1	111.5	24.8	86.7
Net pension obligations	587.7	-	50.4	537.4	-	537.4
Net OPEB obligations	-	609.5	-	609.5	-	609.5
Other claims & judgments	426.5	137.8	147.3	417.0	210.6	206.3
Durant settlement	251.9	10.4	31.7	230.6	38.8	191.8
Total Governmental Activities	$ 2,128.4	$ 1,244.1	$ 650.6	$ 2,721.9	$ 638.8	$ 2,083.1
Business-type Activities						
Other Long-term Obligations:						
Advances from Federal government	$ -	$ 362.4	$ -	$ 362.4	$ -	$ 362.4
Lottery prize awards*	341.0	21.4	76.0	286.4	66.4	220.0
Compensated absences	3.2	1.4	1.3	3.3	1.0	2.3
Other claims & judgments	47.3	8.2	-	55.5	-	55.5
Total Business-type Activities	$ 391.6	$ 393.3	$ 77.2	$ 707.6	$ 67.4	$ 640.3

*The amounts due within one year are included with "Accounts payable and other liabilities" on the Statement of Net Assets.
**Beginning balance has been restated. More detailed information can be found in Note 4.

The General Fund, special revenue, and internal service funds in which the leases are recorded will liquidate the capital lease obligations. The compensated absence and workers' compensation liabilities will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations and net OPEB obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on the statutorily required contribution rates. The School Aid Fund will liquidate the Durant settlement. Other claims and judgments attributable to governmental activities will generally be liquidated by the General Fund and transportation related special revenue funds.

Discretely Presented Component Units

Michigan Education Trust

Michigan Education Trust (MET) offers contracts, which for actuarially determined amounts, provide future tuition at State institutions of higher education. Contract provisions also allow the benefits to be used at private or out-of-state institutions, with the amount provided being based upon rates charged by the State's public institutions of higher education. The tuition payments are made by MET as a separate legal entity and these contracts are not considered obligations of the State. The Legislature is not obligated to provide appropriations should losses occur. The statutes and contracts provide for refunds to the participants if MET becomes actuarially unsound. Liabilities have been recorded on the statement of net assets for the actuarial present value of future tuition benefit obligations.

The 1988, 1989, and 1990 enrollments are known as Plans B and C. Enrollments after November 1995 are known as Plan D.

The actuarial report on the status of MET Plans B and C, as of September 30, 2008, shows the actuarial present value of future tuition obligations to be $337.6 million, as compared to the actuarially determined market value of assets available of $366.0 million. The actuarial assumptions used include: a projected tuition increase rate of 7.3% for all future years; and a discount rate of 4.75%.

The actuarial report on the status of MET Plan D, as of September 30, 2008, shows the actuarial present value of future tuition obligations to be $685.0 million, as compared to the actuarially determined market value of assets available of $559.1 million. The actuarial assumptions used include: a projected tuition increase rate of 7.3% for all future years; and a discount rate of 7.5%.

During 2000, MET changed the balance sheet presentation of the tuition benefit obligation by increasing the liability to include the present value of future contract payments expected to be collected from installment contract purchasers. There was no effect on net income or retained earnings as a result of the reclassification.

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan and, thus, the investment income realized by MET is not currently subject to federal income tax. On August 20, 1996, the Small Business Job Protection Act of 1996 (the "1996 Tax Act") was signed into law which included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified State tuition program is generally exempt from income tax, but is subject to unrelated business income tax. MET has no unrelated business income. Distributions made in excess of qualified higher education expenses (whether to the refund designee, beneficiary, or to a college on behalf of the beneficiary) are taxable income to the beneficiary or the refund designee. In May 1997, MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET is in compliance with the Act.

NOTE 16 – INCOME TAX CREDITS AND REFUNDS

Income Tax Credits

The Michigan Income Tax Act provides for several types of tax credits. Some credits are accounted for as revenue reductions for financial reporting purposes while others are reported as expenditures. Revenue reductions are reported for those income tax credits that are limited by the amount of an individual's tax liability before considering such credits. To the extent these nonrefundable credits will generate future year payments, they are accrued as income tax refund liabilities together with estimated overwithholdings.

Expenditures are reported for those credits which can be received even if they exceed the individual's tax liability. For these refundable credits, the substance of the transaction is that the State is making a grant payment using the income tax system as a filing and payment mechanism. The amount of credit received is not a part of the determination of tax liability. The State's property tax is the primary credit that falls into this category. Expenditures for this credit are recognized in the year the tax returns are filed and recipients claim the credit.

The following table summarizes the various credits, reported on the "Tax expenditures" line as an expense in the government-wide financial statements and as an expenditure in the fund financial statements (in millions):

Property tax credits:	
General homestead	$ 520.8
Senior citizens	324.2
Blind and disabled	50.6
Farmland preservation	33.6
Veterans	1.2
Subtotal - property tax credits	930.4
Adoption credit	1.0
Home heating (excluding federal share)	.2
Total tax expenditures	$ 931.6

Income Tax Refunds Payable

The $681.9 million reported as a liability on the "Income tax refunds payable" line in the government-wide and fund financial statements includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions, actual refunds made in October and November, and accruals for known income tax litigation losses.

NOTE 17 – DEFERRED COMPENSATION PLANS

The State offers its employees (excluding university employees) two deferred compensation plans to allow a portion of their salary to be deferred until future years. Executive Order 1999-7 transferred administrative oversight of the plans, labeled 457 and 401k after sections of the Internal Revenue Code, to the Department of Management and Budget. Day-to-day operations of the plans have been contracted to a third-party; however, the State Treasurer oversees investment options. The 457 plan and the 401k plan are combined for reporting purposes under the heading of "State of Michigan Deferred Compensation Funds."

The State makes no contribution to the 457 plan. Generally, the State does not make matching contributions to the 401k plan; however, the State has occasionally made matching contributions to the 401k plan as part of certain employees' compensation packages. To expand investment options, three investment tiers were developed and made available to participants on July 1, 1997. Participants invest their contributions and accumulated earnings by selecting mutual funds in one or more of the investment tiers. Employees may, at any time, transfer accumulated balances and future contributions among mutual funds in the investment tiers. Investment earnings, net of administrative charges, are credited to the participants proportionally, based upon their balances in the plan.

The 401k plan includes loan provisions. Loans to participants are recorded as assets. The 457 plan does not include loan provisions.

Net assets available for plan benefits for the 457 plan and the 401k plan at September 30, 2008, were $1.8 and $1.8 billion, respectively.

NOTE 18 – INTERFUND RECEIVABLES AND PAYABLES

Primary Government

The balances of current interfund receivables and payables as of September 30 were (in millions):

	Due To						
Due From	General Fund	School Aid Fund	Non-Major Governmental Funds	Unemployment Compensation Funds	Internal Service Funds	Fiduciary Funds	Total
General Fund	$ -	$ -	$ -	$ 1.2	$ 15.5	$ 31.0	$ 47.6
School Aid Fund	980.2	-	464.5	-	-	-	1,444.6
Non-major Governmental Funds	11.1	-	67.2	-	2.0	3.6	84.0
State Lottery Fund	-	11.7	-	-	.1	.1	11.9
Unemployment Compensation Funds	-	-	1.0	6.4	-	-	7.4
Non-major Enterprise Funds	-	-	-	-	-	.1	.1
Internal Service Funds	-	-	-	-	4.9	1.5	6.4
Fiduciary Funds	.4	-	-	-	-	-	.4
Total	$ 991.6	$ 11.7	$ 532.7	$ 7.6	$ 22.4	$ 36.3	$ 1,602.3

Interfund receivables and payables are recorded for 1) borrowings to eliminate negative balances in the Common Cash pool, as described in Note 5, 2) payroll liabilities for group insurance and retirement, and 3) tax accrual distributions for taxes collected in the following fiscal year.

Not included in the table above are the following interfund advances, which are not expected to be repaid within one year: $7.5 million due from the Correctional Industries Revolving Fund (an internal service fund) to the General Fund for amounts loaned for capital construction.

Discretely Presented Component Units

Receivables and related liabilities between the primary government and the discretely presented component units, do not agree because the Michigan State Housing Development Authority and the ten State universities have a June 30 fiscal year-end.

NOTE 19 – INTERFUND COMMITMENTS

Michigan Conservation and Recreation Legacy Fund
In fiscal year 2003, P.A. 746 of 2002, required the transfer of $7.8 million from the Michigan State Waterways Fund (now accounted for within the Michigan Conservation and Recreation Legacy Fund) to the General Fund. The Act states that in the future the General Fund is to provide reimbursement. Interfund receivables and payables are not recorded for this commitment, because there is no repayment schedule and the repayment is considered long-term and budgetary in nature.

Mackinac Bridge Authority
Mackinaw Bridge Authority (MBA), a discretely presented component unit, has over the years received $75.3 million of subsidies, including $12.3 million for operations and $63.0 million for debt service. These subsidies were provided by the State Trunkline and Michigan Transportation funds, respectively, both of which are special revenue funds.

State statutes require that MBA continue charging bridge tolls and begin repaying the State funds for the subsidies provided. These repayments are to continue until such time as the subsidies have been completely returned. MBA has not recorded a liability and the State funds have not recorded receivables for these subsidies because: the reimbursements are contingent upon future net revenues, there is no repayment schedule, and the repayment commitment is long-term and budgetary in nature. Repayments may be authorized by MBA, after consideration of MBA's annual needs for its operations and planned repairs and improvements.

As of September 30, 2008, MBA has repaid a total of $11.3 million of the advance from the Michigan Transportation Fund, leaving a balance of $51.8 million. No repayments have been made on the advance from the State Trunkline Fund.

NOTE 20 – TRANSFERS

Interfund transfers for the year ended September 30, 2008, consisted of the following (in millions):

	Transferred To					
Transferred From	General Fund	School Aid Fund	Non-Major Governmental Funds	Internal Service Funds	Fiduciary Funds	Total
General Fund	$ -	$ 29.2	$ 365.8	$ 14.1	$ 7.5	$ 416.5
School Aid Fund	3.8	-	-	-	-	3.8
Non-major Governmental Funds	97.5	-	1,399.0	-	-	1,496.5
State Lottery Fund	11.6	740.7	-	-	-	752.4
Unemployment Compensation Funds	3.7	-	10.0	-	-	13.7
Non-major Enterprise Funds	161.7	-	-	-	-	161.7
Internal Service Funds	1.3	-	-	-	-	1.3
Fiduciary Funds	.1	-	-	-	-	.1
Total	$ 279.7	$ 770.0	$ 1,774.8	$ 14.1	$ 7.5	$2,846.0

Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor Purchase Revolving Fund and the State Lottery Fund as required by law, 5) transfer budgetary surpluses from the General Fund to the Counter-Cyclical Budget and Economic Stabilization Fund or transfer accumulated surpluses from the Counter-Cyclical Budget and Economic Stabilization Fund to other funds when necessary, and 6) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

NOTE 21 – FUND DEFICITS

Primary Government

Governmental Funds
The Advance Financing Funds, a capital projects fund, had a fund balance deficit of $29.5 million. The fund deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites that have not been sold.

The State Building Authority, a capital projects fund, had a fund balance deficit of $211.0 million. The fund deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

Proprietary Funds
The Office Services Revolving Fund, an internal service fund, had a net asset deficit of $7.2 million. The fund deficit is expected to be eliminated over the next several fiscal years with rate increases as well as various cost saving initiatives.

The Michigan Unemployment Compensation Funds, an enterprise fund, had a net asset deficit of $90.4 million. The fund deficit was the result of repayable federal advances obtained from the U.S. Department of Labor in the amount of $362.4 million that have yet to be paid back.

Discretely Presented Component Units

All discretely presented component units have positive net asset balances as of September 30, 2008, with the exception of the Michigan Education Trust (MET). MET's net asset deficit of $97.5 million was caused primarily by the decrease in the fair value of investments.

NOTE 22 – FUND BALANCES AND NET ASSETS

Reservations - Primary Government

The line entitled "Reserved fund balance" on the Governmental Funds Balance Sheet at September 30 consists of the following (in millions):

	General Fund	School Aid Fund	Other Special Revenue Funds	Debt Service Funds	Permanent Funds	Total
Budgetary carry-forwards:						
Encumbrances	$ 94.7	$ .4	$ 143.8	$ -	$ 21.0	$ 259.9
Restricted revenues	434.2	247.1	310.5	-	2.9	994.8
Multi-year projects (capital outlay and work projects)	40.1	2.9	275.5	-	51.9	370.4
Construction and debt service	-	-	116.5	-	-	116.5
Revolving loan programs	5.0	-	65.9	-	-	70.9
Funds held as permanent investments	-	-	143.7	-	557.3	701.0
Noncurrent assets	259.1	4.2	24.8	-	-	288.1
Other purposes	-	-	-	.3	-	.3
Total Reserved Fund Balances	$ 833.1	$ 254.6	$ 1,080.8	$ .3	$ 633.1	$ 2,801.9

Budgetary carry-forwards represent unused spending authorization that continues to be available in the new year. Restricted revenue carry-forwards include revenues restricted by law for specified purposes. The largest restricted revenue carry-forward in the General Fund is related to the Refined Petroleum Fund in the amount of $37.6 million. The $40.1 million of multi-year projects in the General Fund includes $1.7 million of capital outlay and $38.3 million of work project authorizations. Such amounts are reserved because the funds are legally segregated for a specific purpose.

Reserves for revolving loan programs represent fund balance, which has been appropriated for the purpose of making loans that will encourage economic development and pollution prevention in the State. Repayments on such loans are authorized to be used to make new loans.

Funds held as permanent investments represent amounts that have been legally restricted for the purpose of providing a long-term source of investment income. These investments can include either specific investments held for the fund or portions of the fund's share of the Common Cash pool.

Reserves are recorded for noncurrent assets if they do not represent current financial resources available for appropriation. No reservation is recorded for noncurrent assets if doing so would result in a duplicate reduction of unreserved fund balance. This occurs if the noncurrent assets have already been reserved for some other reason or if they are related to revenues that have been deferred because of not being "available."

Reserved fund balance for other purposes represents a reserve account required by the State Park Gross Revenue Bonds document. This reserved amount is used to pay principal and interest in the event of default.

Also, no reservations of fund balances are recorded in single purpose special revenue funds. From the overall State perspective, the unreserved fund balances of funds other than the General Fund are restricted by the nature of the fund type and they are not available for general State purposes.

Net Asset Designations - Primary Government

The line "Unrestricted net assets" on the government-wide Statement of Net Assets contains designations as follows:

The State Sponsored Group Insurance Fund, an internal service fund described in Note 25, designated $47.7 million for future catastrophic losses.

Restricted Net Assets – Primary Government

The following table provides additional detail regarding the restricted net assets reported for the primary government on the government-wide Statement of Net Assets (in millions):

	Restricted by Enabling Legislation	External or Constitutional Restrictions	Total
Governmental Activities:			
Restricted For:			
Education	$ 1.3	$ 494.8	$ 496.2
Public safety and corrections	14.0	4.0	17.9
Conservation, environment, recreation, and agriculture	178.8	190.1	368.9
Health and human services	23.8	26.2	50.1
Transportation	-	766.9	766.9
Labor and economic growth	99.9	-	99.9
Other purposes	89.7	12.7	102.4
Funds Held as Permanent Investments:			
Expendable	-	132.6	132.6
Nonexpendable	7.6	557.3	564.9
Total Restricted Net Assets - Governmental	$ 415.1	$ 2,184.7	$ 2,599.8
Business-Type Activities:			
Restricted For:			
Unemployment compensation	$ 35.9	$ -	$ 35.9
Other purposes	36.8	-	36.8
Total Restricted Net Assets – Business-Type	$ 72.7	$ -	$ 72.7
Total Primary Government:			
Restricted For:			
Education	$ 1.3	$ 494.8	$ 496.2
Public safety and corrections	14.0	4.0	17.9
Conservation, environment, recreation, and agriculture	178.8	190.1	368.9
Health and human services	23.8	26.2	50.1
Transportation	-	766.9	766.9
Unemployment compensation	35.9	-	35.9
Labor and economic growth	99.9	-	99.9
Other purposes	126.5	12.7	139.2
Funds Held as Permanent Investments:			
Expendable	-	132.6	132.6
Nonexpendable	7.6	557.3	564.9
Total Restricted Net Assets – Primary Government	$ 487.8	$ 2,184.7	$ 2,672.4

NOTE 23 – DISAGGREGATION OF PAYABLES

The line "Current Liabilities: Accounts payable and other liabilities," as presented on the government-wide Statement of Net Assets as of September 30, 2008, consisted of the following (in millions):

	General Fund	School Aid Fund	Non-major Govern-mental Funds	Other Funds	State Lottery Fund	Michigan Unemployment Compensation Funds	Non-major Enterprise Funds	Total
Medicaid programs	$ 536.1	$ -	$ -	$ -	$ -	$ -	$ -	$ 536.1
Non-Medicaid health programs	160.4	-	-	-	-	-	-	160.4
Human services programs	188.7	-	.3	-	-	-	-	189.0
Transportation programs	-	-	488.5	-	-	-	-	488.5
School Aid programs	-	150.2	-	-	-	-	-	150.2
Other State programs	303.4	-	39.7	-	-	-	-	343.1
Merit Award scholarships	-	-	6.7	-	-	-	-	6.7
Payroll and withholdings	195.4	-	25.2	-	.7	-	.6	221.9
Tax refunds other than income tax	193.7	5.5	13.0	-	-	-	-	212.2
Unearned receipts	55.6	.3	11.9	-	-	-	-	67.8
Amounts held for others	26.3	-	74.0	-	1.6	-	-	102.0
Capital project related	-	-	24.1	-	-	-	-	24.1
Prize awards	-	-	-	-	118.8	-	-	118.8
Liquor purchase	-	-	-	-	-	-	62.2	62.2
Unemployment payments	-	-	-	-	-	44.5	-	44.5
Internal Service Fund liabilities	-	-	-	119.7	-	-	-	119.7
Due to fiduciary funds*	-	-	-	36.3	-	-	-	36.3
Miscellaneous	-	-	-	-	11.0	-	.2	11.3
Total	$ 1,659.6	$ 155.9	$ 683.5	$ 155.9	$ 132.2	$ 44.5	$ 63.0	$ 2,894.6

*This amount represents amounts due to fiduciary funds that are reclassified as external payables on the government-wide Statement of Net Assets.

Effective January 1, 2008, the State replaced the Single Business Tax with the Michigan Business Tax (MBT). Due to the change in the law, taxpayers have until April 2009 to submit their final MBT tax returns indicating the total tax liability incurred. As a result, the State is unable to estimate an accrual because the data needed to compare tax payments received to the total tax liability is not available. Therefore, any potential tax refund (payable) is not measurable and has not been recorded in this fiscal year.

NOTE 24 – CONTINGENCIES AND COMMITMENTS

Primary Government

Litigation

In the government-wide and proprietary fund financial statements, the State accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. In the governmental fund financial statements, liabilities are accrued when cases are settled and the amount is due and payable.

The State is a party to various legal proceedings seeking damages, injunctive, or other relief. In addition to routine litigation, certain of these proceedings could, if unfavorably resolved from the point of view of the State, substantially affect State programs or finances. These lawsuits involve programs generally in the areas of corrections; tax collection; commerce and budgetary reductions to school districts and governmental units; and court funding. Relief sought generally includes damages in tort cases; improvement of prison medical and mental health care and refund claims for State taxes. The State is also a party to various legal proceedings that, if resolved in the State's favor, would result in contingency gains to the State, but without material effect upon fund balance/net assets. The ultimate dispositions and consequences of all of these proceedings are not presently determinable, but such ultimate dispositions and consequences of any single proceeding or all legal proceedings collectively should not themselves, except as listed below, in the opinion of the Attorney General of the State and the Office of the State Budget, have a material adverse effect on the State's financial position. Those lawsuits pending which may have a significant impact or substantial effect on State programs or finances, if resolved in a manner unfavorable to the State, include the following:

Durant et al v State of Michigan: On November 15, 2000, more than 365 Michigan school districts and individuals filed two suits in the Michigan Court of Appeals. The first suit, Durant et al v State et al ("Durant III"), asserts that the State School Aid appropriation act, P.A. 297 of 2000, violates the State Constitution, Article 9, Sections 25-34 (the "Headlee Amendment"), because it allegedly transfers per pupil revenue guaranteed to school districts under the Constitution of 1963, Article 9, Section 11, for unrestricted school operating purposes, in order to satisfy the State's independent funding obligation to those school districts under Article 9, Section 29. The State won this case in the Court of Appeals, and the Supreme Court denied the plaintiffs' application for leave to appeal.

The second suit, Adair et al v State et al ("Adair"), was filed on November 15, 2000, by more than 400 school districts and asserts that the State has, by operation of law, increased the level of various specified activities and services beyond that which was required by State law as of December 23, 1978 and, subsequent to December 23, 1978, added various specified new activities or services by State law, including mandatory increases in student instruction time, without providing funding for these new activities and services, all in violation of the Headlee Amendment. The Adair plaintiffs sought an unspecified money judgment equal to the reduction in the State financed proportion of necessary costs incurred by the plaintiff school districts for each school year from 1997-1998 through the date of any judgment and for attorneys' fees and litigation costs. The Adair plaintiffs also sought a declaratory judgment that the State has failed to meet its funding responsibility under the Headlee Amendment to provide the plaintiff school districts with revenues sufficient to pay for the necessary increased costs for activities and services first required by State law after December 23, 1978, and to pay for increases in the level of required activities and services beyond that which was required by State law as of December 23, 1978.

On January 2, 2001, plaintiffs filed a first amended complaint in both Durant III and Adair increasing the number of school district plaintiffs to 443. On February 22, 2001, plaintiffs filed a second amended complaint in Durant III increasing the number of school district plaintiffs to 457. On April 16, 2001, plaintiffs filed a second amended complaint in Adair increasing the number of school district plaintiffs to 463. The second amended complaint includes a request for declaratory relief, attorneys' fees and litigation costs but does not include a request for money judgment.

On April 23, 2002, the Court of Appeals dismissed the complaint in its entirety and with prejudice. Plaintiffs filed an application for leave to appeal in the Michigan Supreme Court on May 14, 2002, which was granted on December 18, 2002.

On June 9, 2004, the Michigan Supreme Court issued its opinion in Adair. The Court held that, with three exceptions, all of the plaintiffs' claims were barred by the doctrines of *res judicata* and release. The Court ruled that all but three of the claims that plaintiffs alleged were new or increased activities could have been included in the Durant I litigation because the activities existed during the time that the Durant I litigation was pending.

The other three claims involve statutes that were enacted after the Court's 1997 Durant I decision. The Court ruled that two of these post-Durant I statutes are not new mandates because the activities are either not new or are merely permissive. The third claim involves the record keeping activities and the operation of the Center for Educational Performance and Information (CEPI), which was created by executive order in 2000 (Michigan Compiled Laws (MCL) Section 388.1752; EO 2000-9). Plaintiffs alleged that the statute and executive order require districts to create and maintain student data following State-specified data-gathering procedures and transmit the data electronically to the State. The Supreme Court ruled that the plaintiffs' allegation that districts had to now actively participate in maintaining data that the State requires for its own purposes presents a colorable claim under the Headlee Amendment. The Court reversed the Court of Appeals' dismissal of the claim and remanded the issue to the Court of Appeals to determine whether this claim constitutes a new State-mandated activity in violation of the Headlee Amendment.

On August 4, 2005, the Court of Appeals held that the school districts failed to present documentary support from which it can be inferred that either MCL 388.1752 or Executive Order 2000-9 mandates the school districts to actively participate in the maintenance of data that the State requires for its purposes. Further, the record keeping claim cannot survive summary disposition in the absence of any factual support, either expressed or implied, demonstrating that a genuine issue of material fact exists with regard to whether the dictates of the statute and the EO impermissibly shift a State obligation to the school districts to avoid the costs of obligation. The Court of Appeals granted summary disposition in the State's favor. Plaintiffs estimated their claim to be $30 million plus ongoing costs. The plaintiff school districts filed an application for leave to appeal with the Michigan Supreme Court. A brief in opposition was filed on October 11, 2005.

On March 8, 2006, the Supreme Court issued an order vacating the August 4, 2005, Court of Appeals decision and remanded the issue to the Court of Appeals for reevaluation of the record keeping claim. The Court of Appeals appointed a Special Master to oversee discovery and make proposed findings to the Court of Appeals. An evidentiary hearing before the Special Master was held in the summer of 2007.

On January 27, 2008, the Special Master issued her opinion. She found that the increased recordkeeping and reporting requirements imposed upon the school districts by the State was an attempt to shift the burden to comply with additional requirements to the districts without appropriating the necessary costs to comply. She concluded that this was a shifting of the recordkeeping and reporting requirement burden from the State to the local units of government in violation of the Headlee Amendment.

The State filed objections to the Special Master's Opinion in the Court of Appeals. The school districts sought attorney fees in the Court of Appeals.

On July 3, 2008, the Court of Appeals issued its Opinion on Second Remand, essentially adopting the conclusions of law and factual findings of the Special Master. The Court entered a declaratory judgment of favor of the Plaintiff school districts, requiring the State to fund the "necessary costs associated with the data collection reporting mandates" associated with CEPI. The Court denied Plaintiff's request for attorney fees.

Both parties have filed applications to appeal in the Michigan Supreme Court. The State is currently awaiting a decision as to whether the Supreme Court will hear these appeals. It is reasonably possible that the State will be paying substantial amounts to school districts for the unfunded mandates, and over $1 million in attorney fees to the Plaintiffs.

<u>County Road Association of Michigan et al</u> v <u>John M. Engler et al</u>: On March 6, 2002, the County Road Association of Michigan and the Chippewa County Road Commission filed a complaint in Ingham County Circuit Court challenging various provisions of Executive Order 2001-9. The executive order was proposed by the Governor and approved by the appropriations committees of both houses of the Legislature on November 6, 2001, for the purpose of reducing appropriated expenditures, to balance the State budget. The complaint consists of five counts, alleging that Defendant State agencies: (1) violated Article 9, Section 9 of the State Constitution, by unlawfully allowing the Department of State to bill the Department of Transportation for expenses in excess of those necessary to collect motor vehicle taxes and fees; (2) violated Article 9, Section 9 of the State Constitution, by utilizing, for non-transportation purposes, revenues from the sale of information, or products, the creation of which was funded by constitutionally restricted transportation funds; (3) violated Article 5, Section 20 and Article 9, Section 17 of the State Constitution, and MCL 247.661 *et seq* by allowing the Department of Treasury to bill the Department of Transportation for expenses in excess of those necessary to collect motor vehicle taxes and fees; (4) violated Article 9, Section 17 of the State Constitution, by transferring funds from the Comprehensive Transportation Fund (CTF) to the General Fund; and (5) violated Article 9, Section 17 of the State Constitution, by transferring funds from the Transportation Economic Development Fund to the General Fund.

The Plaintiffs obtained two injunctions from the Ingham County Circuit Court. One injunction barred the State from diverting $20 million to the General Fund from the Michigan Transportation Fund (MTF) and the other barred the State from diverting $12.8 million to the General Fund from the CTF. On January 13, 2004, the Court of Appeals vacated the CTF injunction, holding that Executive Order 2001-9 legitimately diverted $12.8 million from the CTF to the General Fund. On the same day, in an unpublished opinion, the Court of Appeals reversed in part and affirmed in part the MTF injunction, holding that $12.5 million was legitimately diverted from the MTF to the General Fund but that the remainder was not.

On November 8, 2005, the Michigan Supreme Court affirmed the Court of Appeals' decision that the State legitimately transferred $12.8 million from the CTF to the General Fund.

On January 30, 2006, the Supreme Court denied the Defendants' application for leave to appeal. Therefore, the Court of Appeals' decision that $12.5 million was legitimately diverted from the MTF to the General Fund, but that $7.5 million was not, stands.

The remaining issues in the case, involving approximately $47.3 million, were tried in the Ingham County Circuit Court in July 2007. On August 28, 2008, the Ingham County Circuit Judge issued an Opinion requiring the Department of State to transfer $7.3 million from fiscal year 2001 and $6.5 million from fiscal year 2002 back to the MTF, and ordering that "an appropriate cost allocation study be done for use in the future to reflect the current costs associated with the sales tax collection." No relief was granted on any other of the Plaintiffs' claims. It is expected that the State will file an appeal to seek reversal of the order and the Plaintiffs will cross-appeal to reverse the portions of the post-trial order that denied them the relief.

<u>Use Tax Revenue</u>: A taxpayer has filed a claim against the State, requesting a refund of Use Taxes for the years 2001 through 2006. The refund amount is based on an earlier audit finding, in which the taxpayer received a refund for tax years 1995 through 2000. The Department of Treasury reviewed the claim and a refund of $54.0 million will be paid to the taxpayer in December 2008.

Federal Grants

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as fund liabilities in the government-wide and proprietary fund financial statements when the loss becomes probable and reasonably estimable. As of September 30, 2008, the State estimates that additional disallowances of recognized revenue will not be material to the general purpose financial statements.

Federal sanctions that may result in a loss to the State include $11.3 million for the Food Stamp Program.

Gain Contingencies

Certain contingent receivables related to the Department of Human Services (DHS) are not recorded as assets in these statements. Amounts recoverable from DHS grant recipients for grant overpayments or from responsible third parties are recorded as receivables only if the amount is reasonably measurable, expected to be received within 12 months, and not contingent upon future grants or the completion of major collection efforts by the State. If recoveries are accrued and the program involves federal participation, a liability for the federal share of the recovery is also accrued. The unrecorded amount of potential recoveries, which are ultimately collectible, cannot be reasonably determined.

In November 1998, the Attorney General joined 45 other states and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek restitution for monies spent by the states under Medicaid and other health care programs for treatment of smoking-related diseases and conditions. Michigan's share of the settlement is expected to be $8.5 billion over the next 25 years, and then $350.0 million per year, adjusted for inflation and other factors, in perpetuity. While Michigan's percentage share of the base payments will not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in the payments. As the market share of the participating manufacturers shifts to companies that are not participating in the settlement, the participating companies are entitled to an adjustment. A state, however, may negate the effects of the market share adjustment by either demonstrating that it diligently enforced the escrow requirements, tax laws, and other statutes against the non-participating tobacco manufacturers. The states are currently in litigation over the application and interpretation of the market share adjustment and diligent enforcement provisions of the master settlement agreement. At best, Michigan will avoid any reduction of its tobacco payments. At worst, an entire year's payment can be eliminated through application of the market share adjustment. The net effect of these adjustments on future payments is unclear, therefore only receivables and deferred revenues which can be reasonably estimated have been recorded for future payments.

Construction Projects

The Department of Transportation has entered into construction contracts that will be paid with transportation related funds. As of September 30, 2008, the balances remaining in these contracts equaled $835.0 million.

Contingent Liability for Local School District Bonds

The Michigan Constitution, Article 9 Section 16 resulted in a contingent liability for the bonds of any school district which are "qualified" by the State Treasurer. If for any reason a qualified school district will be, or is unable, to pay the principal and interest on its qualified bonds when due, the school district shall borrow, and the State shall lend to it, any amount necessary for the school district to avoid a default on its qualified bonds. In the event that adequate funds are not available in the School Loan Revolving Fund to make such a loan, the State is required to make loans from the General Fund. As of September 30, 2008, the principal amount of qualified bonds outstanding was $14.0 billion. Total debt service requirements on these bonds including interest will approximate $1.4 billion in 2009. The amount of loans by the State (related to local school district bonds qualified under this program), outstanding to local school districts as of September 30, 2008, is $720.1 million. Interest due on these loans as of September 30, 2008, is $160.4 million.

Discretely Presented Component Units

Student Loan Guarantees

The Michigan Higher Education Assistance Authority (MHEAA) is contingently liable for loans made to students by financial institutions that qualify for guaranty. The State, other than MHEAA, is not liable for these loans. The MHEAA's default ratio is currently below 5% for the fiscal year ended September 30, 2008. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 2007, is 100% for loans made prior to October 1, 1993, and 98% for loans made on or after October 1, 1993, to September 30, 1998. In the event of future adverse default experience, MHEAA could be liable for up to 25% of defaulted loans. Management does not expect that all guaranteed loans could default in one year. At the beginning of each fiscal year, MHEAA's reinsurance rate returns to 98%.

For loans made on or after October 1, 1998, the reinsurance rate will be 95%. In the event of future adverse default experience, MHEAA could be liable for up to 25% of such defaulted loans. Accordingly, MHEAA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans; however, the maximum contingent liability at September 30, 2008, is $1.1 billion.

The MHEAA entered into commitment agreements with all lenders that provide, among other things, that the MHEAA will maintain cash and marketable securities at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended. The MHEAA was in compliance with this requirement as of September 30, 2008.

Multi-Family Mortgage Loans
As of June 30, 2008, the Michigan State Housing Development Authority (MSHDA) has commitments to issue multi-family mortgage loans in the amount of $107.6 million and single-family mortgage loans in the amount of $114.6 million.

The MSHDA has committed up to approximately $1.1 million per year for up to 30 years from the date of completion of the respective developments (subject to three years advance notice of termination) from its accumulated reserves and future income to subsidize operations or rents for certain tenants occupying units in certain developments funded under MSHDA's multi-family program.

NOTE 25 – RISK MANAGEMENT

Primary Government

General
The State has elected not to purchase commercial insurance for many of the risks of losses to which it is exposed. The State is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims. Areas of risk where some level of insurance coverage is purchased include: aircraft liability, property and loss rental insurance that may be required by bond or lease agreements, portions of the State employee insurance benefits program, certain State artifacts, builder's risk coverage, boiler and machinery coverage, and employee bonding. Settled claims have not exceeded commercial coverage in any of the past ten fiscal years.

The State has established two internal service funds, which are described below, to account for certain aspects of the risk management program. Fund expenditures (expenses) are recognized in the paying funds in a manner similar to purchased commercial insurance. For other uninsured losses not covered by an internal service fund program, such as general liability and property losses, the State recognizes fund liabilities in the fund incurring the loss as follows: governmental funds record an expenditure when a loss is due and payable; proprietary funds record an expense when it is probable that a loss has occurred and the amount can be reasonably estimated. As explained more fully in Note 15, losses for workers' compensation and certain types of litigation losses have been recognized as liabilities in the government-wide financial statements.

For unemployment claims, the Unemployment Insurance Agency (UIA) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by UIA through September 30. During fiscal year 2008, expenditures for payments to former State employees (not including university employees) totaled $12.2 million. The potential liability for future payments cannot be estimated.

The State's two internal service funds, which account for certain areas of risk management, such as portions of its employee insurance benefits, employee bonding, and automobile liability, follow accounting standards established by the GASB. This results in a reporting which is very similar to that used in the private insurance industry. The various component programs within the two funds may incur deficits during a given year, but each program's surplus and unrestricted net asset balance is considered in calculating future charges or benefit levels.

Risk Management Fund
This fund was established during fiscal year 1990 to account for insurance management activities implemented within the Department of Management and Budget. The automotive liability and administrative functions are accounted for as operating activities of this fund. Expenses and liabilities for claims, including incurred but not reported or not processed claims, have been recorded in the amount of $5.1 million. This includes a long-term portion, which is recorded at $3.1 million. Changes in the Risk Management Fund's claims for automobile liability for the fiscal years ending September 30, 2008 and 2007 are as follows (in millions):

	2008	2007
Balance - beginning	$ 5.8	$ 6.3
Current year claims and changes in estimates	.6	2.0
Claim payments	(1.3)	(2.5)
Balance - ending	$ 5.1	$ 5.8

Workers' compensation payments for State agencies are processed centrally through the Risk Management Fund. Changes in Workers' Compensation claims for the fiscal years ending September 30, 2008 and 2007 are as follows (in millions):

	2008	2007
Balance - beginning	$ 112.9	$ 111.8
Current year claims and changes in estimates	23.7	25.9
Claim payments	(25.1)	(24.9)
Balance - ending	$ 111.5	$ 112.9

Workers' Compensation is further described in Note 15.

State Sponsored Group Insurance Fund
The Department of Management and Budget and the Civil Service Commission use this fund to account for employee benefit programs, which are largely self-funded. In compliance with Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the retiree insurance benefits programs are no longer reported in this fund. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, based on preliminary estimates from the plan administrators, have been recorded as liabilities in the amount of $132.9 million. This includes a long-term portion, which is recorded at a discounted present value of $86.3 million. For all claims incurred prior to October 1, 2008, the discounted present value of the long-term disability liability was calculated over a 10 year period using a discount rate of approximately 2%.

Payments to the State Sponsored Group Insurance Fund are based on estimates of amounts needed to pay prior and current year claims. In addition, a portion of the fund's net assets has been designated for catastrophic losses. The risk management designation represents the level of reserves that should be maintained to ease large fluctuations in premium levels in years of unexpected excessive claims. That designation was $47.7 million at September 30, 2008. Unrestricted net assets totaled $40.4 million at September 30, 2008.

Changes in the State Sponsored Group Insurance Fund's claims liability for employee benefit programs for the fiscal years ending September 30, 2008 and 2007 are as follows (in millions):

	2008	2007*
Balance - beginning	$ 134.3	$ 134.7
Current year claims and changes in estimates	643.9	632.7
Claim payments	(645.3)	(633.1)
Balance - ending	$ 132.9	$ 134.3

*2007 amounts were restated due to removal of retiree benefit programs.

Discretely Presented Component Units

State Universities
The State university component units participate with the other Michigan public universities in the Michigan Universities Self-Insurance Corporation (MUSIC), which provides indemnity to its members against comprehensive general liability, errors and omissions losses, and property damage commonly covered by insurance. Loss coverages for comprehensive general liability and property are structured on a three-layer basis with each member retaining a portion of its losses, MUSIC covering the second layer, and commercial carriers covering the third layer. For all policy years through June 30, 1993, errors and omissions coverage was structured on a two-layer basis with no excess insurance provided. Effective July 1, 1993, MUSIC obtained excess insurance coverage from commercial carriers covering the third layer. For automobile liability there is no member retention. Comprehensive general liability, property and automobile liability coverage is provided on an occurrence basis; errors and omissions coverage is provided on a claims-made basis.

NOTE 26 – SUBSEQUENT EVENTS

Long-Term Borrowing

In October 2008, principal in the amount of $113.1 million was paid on the State's Multi-Modal General Obligation Tax-Exempt School Loan Bonds Series 2005C using proceeds from a draw on the DEPFA Credit Facility and as such, these became bank bonds. Interest is due on November 3, 2008 and will further occur on the first business day of each subsequent month. The interest rate is the Prime Rate.

In October 2008, principal in the amount of $139.5 million was paid on the State's Multi-Modal General Obligation Taxable School Loan Bonds Series 2005B using proceeds from a draw on the DEPFA Credit Facility and as such, these became bank bonds. Interest is due on November 3, 2008 and will further occur on the first business day of each subsequent month. The interest rate is the Prime Rate.

In November 2008, principal in the amount of $49.1 million was paid on the State's Multi-Modal General Obligation Taxable School Loan Bonds Series 2005B using proceeds from a draw on the DEPFA Credit Facility. Interest is due on December 1, 2008 and will further occur on the first business day of each subsequent month. The interest rate is the Prime Rate.

In November 2008, the State issued its General Obligation School Loan Refunding Bonds Series 2008A, in the aggregated principal amount of $143.0 million as fully registered bonds bearing interest which is payable semi-annually commencing May 1, 2009. Proceeds of this issuance were used to refund $27.5 million of School Loan Bonds, Series 1998, and $113.1 million of Multi-Modal General Obligation Tax-Exempt School Loan Bonds Series 2005C.

In November 2008, the State Building Authority (SBA) issued its 2008 Revenue and Refunding Series I Bonds for $192.3 million. This issue financed 17 new projects and refunded the 2005 Series II A/B bonds outstanding.

Short-Term Borrowing

On November 13, 2008, the State issued its $900.0 million State of Michigan Full Faith and Credit General Obligation Notes, Fiscal Year 2009, Series A. The notes will mature on September 30, 2009, with an interest rate of 3.0%.

On December 17, 2008, the State issued its $500.0 million State of Michigan Full Faith and Credit General Obligation Notes, Fiscal Year 2009, Series B. The notes will mature on September 30, 2009, with an interest rate of 3.0%.

In November 2008, SBA issued an additional $20.8 million and retired $134.8 million in commercial paper. Therefore, SBA's commercial paper outstanding is $96.3 million, at a rate of .85%, maturing on February 12, 2009.

Long-Term Borrowing - Discretely Presented Component Units

Subsequent to their respective year-ends, the following discretely presented component units issued long-term debt (in millions):

	Bonds Issued
Michigan State Housing Development Authority	$ 427.6
Michigan State Hospital Finance Authority	704.8
Michigan Municipal Bond Authority	180.8
Michigan Technological University	15.9
Saginaw Valley State University	12.6
Total	$ 1,341.7

Disclosures regarding these bonds and transactions are available in the separately issued reports of the various organizations.

Disbursements to Local Units of Government - Discretely Presented Component Units

On October 27, 2008, funds totaling $16.1 million were disbursed to qualified schools from the Michigan Municipal Bond Authority's School Loan Revolving Fund.

Executive Reorganization

On October 27, 2008, the Governor issued Executive Order 2008-20, which abolished the Michigan Broadband Development Authority (MBDA), a discretely presented component unit, and its board of directors effective December 28, 2008. The MBDA's responsibilities regarding broadband infrastructure assessment and development in the State were transferred to the Department of Information Technology. Any unexpended balances of appropriations, allocations, or other funds were transferred to the Michigan State Housing Development Authority, a discretely presented component unit.

Financial Market Decline

Financial markets have experienced severe volatility and consequently experienced a substantial decline in value. The long-term effects of this market volatility on any particular investment cannot be determined. However, the short-term effect of these events has had a material effect on the reported values of investments subsequent to year-end.